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MANUFACTURED HOME FINANCING

1977

MANUFACTURED HOUSING INSTITUTE

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SURVEY DATA TABULATED BY:
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INTRODUCTION

The Manufactured Housing Institute under the direction of its Finance Committee has conducted a survey of financial institutions advancing retail financing to the Mobile Home Industry's customers for twenty seven consecutive years.

One expert has said that the mobile home industry evolved from the recreational vehicle industry during the mid 1960's. Most financial institutions have continued to finance mobile homes using a chattel mortgage instrument since the early years when the mobile home was really a travel trailer. Herein lies one of the mobile home industry's major problems, namely, how does the industry begin to realize its great potential of providing quality housing at affordable prices to a large cross section of the public when traditional methods of financing, i.e.: relatively high interest rates and short maturity periods, result in monthly payments which are out of the reach of many potential customers.

Most mobile/manufactured home financing is done indirectly through the sales agent or retailer who has some form of finance participation in return for placing the paper with a particular lender. This has been the method used by most mobile home lenders to obtain the desired loan volume.

As always there are some exceptions to this rule. One noteable exception is a mutual savings bank located in the Pacific Northwest which advances all of its mobile home loans direct to the customer. The bank's Vice President is proud of the performance of its mobile home portfolio as well as the loan volume their program has generated and says that their losses have never exceeded .13 of 1% on the portfolio and that delinquency has averaged less than 1% of outstandings over the last 10 years. The VP indicates that the bank will extend terms up to 25 years depending upon the amount of the loan and whether or not the borrower's private site is included in the loan transaction. The bank's best rate is 10% simple interest.

Another major San Francisco based commercial bank announced early in 1978 that its mobile home portfolio was being transferred from its consumer loan department to its home loan department and that further modernization of its mobile/manufactured home loan policies would be undertaken.

We comment on these two institutions and their programs only because they may be leading certain trends that are important for the long term growth of the Manufactured Housing Industry and not because their philosophies are widely accepted or duplicated at present.

Mobile Homes keep getting bigger and more expensive, however, they still represent the best buy in housing today. The medium sale price of a "site built" home in 1977 was $48,000 while the average price of a mobile/manufactured home in 1977 was $15,200. Not including land, the sale price/square foot of the site-built home was $24.75, and for the mobile home it was $13.75. The average square feet on which these calculations were based were 1,630 and 1,105 square feet, respectively.

As the sale price continues to escalate for site built housing, manufactured housing is taking an ever increasing share of the lower priced housing market. According to statistics compiled by the U.S. Department of Commerce and the Manufactured Housing Institute during 1977 mobile homes accounted for 67% (up from 53% in 1975) of combined mobile home shipments and total new one-family site-built homes sold in the under $35,000 price range.

The National Association of Home Builders testified recently before the U.S. House of Representatives' Subcommittee on Housing of the Committee on Veterans Affairs that, "The home building industry recognizes that as the price of conventionally built housing escalates, an increasing percentage of the American public is priced out of the new home market. For those families, one alternative which increasingly is being apted for is the purchase of a mobile home."

Congressional and regulatory actions may have the effect of opening up the government loan guarantee and insurance programs for mobile homes. Since the establishment of the VA and FHA guarantee and insurance programs less than ten percent of the loans written have been backed by this kind of government protection. One problem that the programs are plagued with is continuous obsolescense due to loan limits which are not increasing as rapidly as the price and the trend toward larger and more expensive houses. Another major problem, especially with the FHA program, is the short maturity periods of 12 and 15 years for a single-section and multi-section home, respectively. These maturity periods have not been increased in recent years, a period which has seen the average price of a mobile home double. Another problem with the FHA program is the "maximum permissible loan advance" which is held at 113% of manufacturer invoice. This forces a dealer desiring to use the FHA program to establish marginally profitable prices to insure that the customer's down payment requirement is not prohibitive.

The FHA was granted authority by Congress to extend the terms to 15 and 23 years on single-section and multi-section homes, respectively. As of this printing, the implementing regulations have not been announced.

Legislation is pending before Congress which would remove the loan ceilings on VA guaranteed mobile home loans and establish a guarantee limit of $17,500 or 50% of the loan amount, whichever is less. This change would bring the VA's mobile home program into alignment with the VA's program for "stick-built" housing. It is anticipated that this change will give the VA program new vitality.

Effectively there is no secondary market for mobile home loans today. One option available is that FHA and VA lenders can pool FHA and VA loans to back the issuance of a security which is guaranteed by the Government National Mortgage Association (Ginnie Mae) as to timely payment to the investor of principal and interest. The Ginnie Mae program, however, does not offer any real solution to the secondary market problem since the FHA and VA loans combined represent less than 10% of the business and not all of those are pooled.

Some lenders have experienced a degree of success in marketing their loans or participations to other lenders, however, this is the exception rather than the rule. Some possible relief from this problem may be on the horizon. The Federal National Mortgage Association (Fannie Mae) is in the midst of a two year project to study the mobile home loan business and evaluate whether or not they should begin a secondary market program. Fannie Mae is gathering a huge amount of data from the confidential examination of individual loan files and mobile home portfolios located across the country in order to identify the risk and ultimately what underwriting standards mobile home loans would have to meet in order to qualify. If Fannie Mae comes forth with a program it will probably include conventional as well as government backed loans and probably not before the Spring of 1979 at the earliest.

The introduction to the 1977 survey report only scratches the surface of those forces currently at work on mobile home lending, however, the more current topics have been touched upon.

In the January 16, 1978, issue of *Bankers Research*, it was reported that "At no period in the history of mobile home financing has there been a better time to go into the business." So stated William H. Vaughn, V.P., Mercantile Trust Co., St. Louis, speaking at a Rap Session held at the Missouri Bankers Association Consumer Finance Conference. Mr. Vaughn sited reduced risk and substantial yields as the principal reason why mobile home financing makes good business sense in 1978. The editor of *Bankers Research* stated that, "We have over the past six months been saying that it is a good time to get into it, or back into it, and are very willing to go along with Mr. Vaughn's even more enthusiastic recommendation."

Starting with the February 1977 issue of *Mobile Home Merchandiser*, a trade magazine of the mobile home industry, a series of interviews with members of MHI's Finance Committee began. Because of the importance of the information contained in these interviews they have been reprinted, with permission, and are contained in this report.

SUMMARY OF RESULTS

Replies were received from *425 financial institutions* who reported doing business in mobile home consumer financing for a total of slightly better than *$6.6 billion in gross dollar volume*. This averaged out at slightly better than $15.5 million of mobile home retail paper for each financial institution. In comparison, last year reports were received from 449 financial institutions totaling slightly better than $6.3 billion which averaged out at slightly under $14.1 million per institution. *The average account went up from $9,518 in 1976 to $9,975 in 1977.* Banks averaged out at $10,279 per account (up from $8,963 in 1976). The average account of the S&L's was $13,018 (slightly lower than the $13,029 figure in 1976) and the finance companies averaged out at $9,143 (slightly below the $9,245 in 1976).

In general, the average minimum down payment on single-section homes went up somewhat from slightly under 16% in 1976 to slightly over 16% in 1977. However, the finance companies averaged slightly under 11% down payment in 1977 as compared to slightly over 12% required in 1976.

The minimum down payment for multi-section homes also went up for all institutions from slightly under 17% down in 1976 to 17½% down in 1977. Once again, finance companies eased down payment requirements dropping down from slightly over 15½% required in 1976 to slightly over 13% in 1977.

Overall delinquencies declined in 1977. The percent of accounts delinquent declined from 4.0% as of December, 1976 to 3.4% as of December, 1977. Banks increased from 3.4% to 4.1% while the finance companies tightened up from a 4.4 rate to 2.8%. The S&L's also improved their position slightly with delinquencies declining from a rate of 4.3% to 4.2% in 1977.

Delinquency data published by the American Bankers Association reflects a significantly better situation at year end from its sample than did the commercial banks responding to MHI's survey questionnaire. The ABA reports that accounts delinquent as a percentage of total loans outstanding was 3.56% (seasonally adjusted) compared with MHI's 4.1%.

Repossession data published by the ABA shows dramatic improvement from 2.22 homes repossessed per 1,000 loans outstanding in January, 1977 to 1.47 homes in December 1977.

The average maturity of new loans for single-section homes increased from 113.45 months in 1976 to 115.9 months in 1977. The average maturity in banks and finance companies went up slightly while the S&L's declined slightly.

On multi-section homes, the average maturity increased from 136.0 months in 1976 to 138.4 months in 1977. Once again banks and finance companies increased the length of their average new loan while the S&L's declined slightly.

There were more financial institutions offering simple interest financing. In the 1976 survey, 11.8% of all financial institutions reported simple interest financing with another 8.9% offering both, simple and add-on interest. In 1977, 17.6% of the financial institutions reporting in the survey offered simple interest with another 7.8% offering both.

The results of this year's survey substantiate the trends that have been occurring for the last several years.

SURVEY BACKGROUND

The Manufactured Housing Finance Survey for the year ending December 31, 1977, was sent to a sample of 3,500 financial institutions. The mailing list for the Survey was developed based on names of financial institutions submitted by the five largest manufacturers in the manufactured housing industry. From an original list of 5,000 institutions which these manufacturers had dealt with nationally, 1,300 were eliminated as duplicate names.

Responses were received from 425 or 12.1% of the financial institutions surveyed.* Of these, 307 responses were from banks, 29 from finance and mortgage banking companies, and 89 from savings and loan associations. Based on total mobile home retail paper outstanding of $14,599,000,000**, the respondents represented a sample of 46%.

* When evaluating the Survey results, please keep in mind that all of the respondents did not answer each question.

** Value of mobile home retail paper outstanding for:

All banks – $8,862,000,000 –– Source: Federal Reserve Bank

All finance companies – $3,109,000,000 –– Source: Federal Reserve Bank

All savings & loan associations – $2,538,000,000 –– Source: U.S. League of Savings Associations

All federal credit unions – $300,000 –– Source: National Credit Union Administration (Estimate based on factors developed by a NCUA sampling of the largest credit Unions nationally)

MANUFACTURERS SHIPMENTS OF MOBILE HOMES

MOBILE HOME GROWTH IN THE PAST DECADE

Year	Mobile Home Shipments (units)	Change Over Previous Year	
		Units	Percent
1967	240,360	+ 23,060	+ 11
1968	317,950	+ 77,590	+ 32
1969	412,690	+ 94,740	+ 30
1970	401,190	– 11,500	– 3
1971	496,570	+ 95,380	+ 24
1972	575,940	+ 79,370	+ 16
1973	566,920	– 9,020	– 2
1974	329,300	– 237,620	– 42
1975	212,690	– 116,610	– 35
1976	246,120	+ 33,430	+ 16
1977	265,145	+ 19,025	+ 8

CHANGE IN PRODUCT MIX

Year	Multi-Section Mobile Homes Shipped	Multi-Section Homes as a Percentage of Total Shipments	
	Units	%	% Change
1968	26,071	8.2	+ 1.9
1969	35,904	8.7	+ .5
1970	38,514	9.6	+ .9
1971	59,588	12.0	+ 2.4
1972	85,239	14.8	+ 2.8
1973	104,313	18.4	+ 3.6
1974	74,092	22.5	+ 4.1
1975	55,086	25.9	+ 3.4
1976	67,352	27.4	+ 1.5
1977	79,540	30.0	+ 2.6

MOBILE HOME SHIPMENTS TO RETAILERS

	1970		1971		1972		1973		1974		1975		1976		1977	
	Homes	%	Homes	%	Homes	%	Homes	%	Homes	%	Homes	%	Homes	%	Homes	%
NORTHEAST	46,705	11.6	41,824	8.4	44,808	7.9	46,040	8	28,374	8	16,521	8	18,639	8	18,263	7
Connecticut	1,052		726		581		707		629		394		409		366	
Maine	4,833		3,645		3,249		3,521		2,182		1,036		1,225		1,397	
Massachusetts	1,585		1,248		1,162		1,386		958		628		759		632	
New Hampshire	2,302		1,980		1,927		2,184		1,410		885		861		997	
New Jersey	2,710		2,179		1,803		1,856		1,548		1,296		1,254		1,003	
New York	13,585		12,073		12,144		12,805		7,889		3,668		4,279		4,030	
Pennsylvania	18,768		18,433		22,755		22,302		13,066		8,136		9,354		9,311	
Rhode Island	262		296		285		301		267		101		68		84	
Vermont	1,608		1,244		902		978		425		377		430		443	
EAST NORTH CENTRAL	67,781	16.9	74,613	15.0	76,080	13.3	73,907	13	40,533	12	25,879	12	28,320	12	29,791	11
Illinois	10,634		11,688		13,448		13,534		7,849		6,177		6,401		5,587	
Indiana	13,176		14,875		14,955		13,819		7,491		4,555		5,009		5,256	
Michigan	19,612		22,887		21,734		20,993		9,935		4,766		5,276		8,096	
Ohio	17,446		18,345		18,608		17,696		10,551		6,671		7,100		7,359	
Wisconsin	6,913		6,818		7,335		7,865		4,707		3,710		4,534		3,493	
WEST NORTH CENTRAL	32,390	8.1	35,260	7.1	38,680	6.7	37,390	6	24,916	8	21,717	10	25,566	10	20,385	8
Iowa	4,609		4,789		3,880		3,854		2,913		2,614		3,138		3,010	
Kansas	5,007		5,179		6,265		5,966		4,296		4,299		4,853		3,429	
Minnesota	7,413		6,783		6,421		7,336		5,769		5,180		6,089		4,627	
Missouri	8,850		10,162		13,985		12,576		6,547		4,945		5,705		4,581	
Nebraska	2,944		3,708		3,523		3,148		2,120		1,619		1,999		1,897	
North Dakota	1,479		2,307		1,937		2,034		1,628		2,007		2,500		1,564	
South Dakota	2,088		2,332		3,569		2,476		1,643		1,053		1,282		1,277	
SOUTH ATLANTIC	115,752	28.9	133,427	26.9	160,567	27.9	161,582	28	87,973	27	47,115	22	54,663	22	52,504	20
Delaware	2,152		1,933		2,559		2,712		1,843		1,257		1,507		1,243	
Florida	37,854		49,366		53,986		56,670		26,923		14,516		15,118		16,930	
Georgia	22,976		22,821		25,921		27,646		12,963		6,967		9,561		7,517	
Maryland	2,979		2,425		2,788		3,014		2,282		1,383		1,444		1,153	
North Carolina	23,606		27,445		35,875		31,885		19,519		9,482		11,346		10,118	
South Carolina	10,694		12,263		17,887		20,629		12,043		5,165		6,764		5,887	
Virginia	9,619		10,522		12,868		11,424		7,913		4,061		4,501		5,046	
West Virginia	5,872		6,652		8,683		7,602		4,487		4,284		4,422		4,610	

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MOBILE HOME SHIPMENTS TO RETAILERS (Continued)

	1970		1971		1972		1973		1974		1975		1976		1977	
	Homes	%	Homes	%	Homes	%	Homes	%	Homes	%	Homes	%	Homes	%	Homes	%
SOUTH CENTRAL	79,118	19.7	110,707	22.3	140,590	24.2	139,077	25	75,572	23	46,924	22	56,513	23	61,016	23
Alabama	12,463		15,999		19,679		23,033		11,130		5,716		6,372		7,163	
Arkansas	4,706		8,620		9,428		10,165		6,280		3,890		3,803		2,966	
Kentucky	8,225		12,062		13,277		13,246		7,041		5,587		5,734		6,495	
Louisiana	6,371		8,336		12,980		14,275		8,711		5,900		7,146		10,335	
Mississippi	6,823		9,584		14,158		17,351		8,533		2,554		3,279		3,556	
Oklahoma	5,016		7,282		9,241		7,672		4,873		3,104		4,196		4,117	
Tennessee	8,822		15,213		17,519		18,776		8,110		3,479		3,802		4,804	
Texas	26,692		33,609		44,308		34,559		20,894		16,694		22,181		21,580	
MOUNTAIN	29,383	7.3	47,147	9.5	58,623	10.2	55,005	10	31,620	10	18,750	9	21,351	9	28,046	11
Arizona	8,735		17,380		21,452		21,055		9,312		4,371		4,465		6,257	
Colorado	6,503		10,669		10,978		7,863		3,628		2,427		3,262		3,610	
Idaho	3,737		4,154		4,990		4,054		3,553		3,091		4,036		3,252	
Montana	2,722		3,464		4,233		3,520		2,937		1,930		2,523		3,260	
Nevada	1,967		2,576		3,404		3,751		2,062		1,311		1,375		3,074	
New Mexico	2,673		5,156		7,669		9,219		5,923		2,928		2,895		5,013	
Utah	1,722		2,475		4,048		3,697		2,190		1,445		1,555		1,642	
Wyoming	1,324		1,273		1,849		1,846		2,015		1,247		1,240		1,938	
PACIFIC	28,678	7.2	52,580	10.6	55,897	9.7	52,909	10	38,959	12	33,090	17	40,348	16	47,980	18
California	17,796		32,578		34,237		26,657		20,080		17,421		21,316		28,884	
Oregon	5,495		12,433		13,309		14,922		8,705		6,399		8,462		7,885	
Washington	5,387		7,569		8,351		11,330		10,174		9,270		10,570		11,211	
ALASKA	1,361	0.3	969	0.2	629	0.1	1,010	0.002	1,337	–	2,694	–	699	–	766	–
HAWAII	22	–	43	–	66	0.001	–	–	16	–	–	–	21	–	0	–
*Cumulative beginning inventory	–		–		–		–		–		–		–		6,394	2
TOTAL U.S.A.	401,190	100%	496,570	100%	575,940	100%	566,920	100%	329,300	100%	212,690	100%	246,120	100	265,145	100

Data Source for 1976 and all prior years – Elrick and Laridge, Inc.
Data Source for 1977 – National Conference of States on Building Codes and Standards, Inc.

*CUMULATIVE BEGINNING INVENTORY–Beginning inventory accumulates and must be added to total shipments on a monthly and year-to-date basis. The data source, NCSBCS, does not account for the ultimate destination of inventory (destination pending) items on a monthly basis. On a periodic basis, other than monthly, NCSBCS will determine the destination of inventory. In cooperation with NCSBCS, MHI will restate state-by-state shipment data to include inventory items.

REGIONAL DISTRIBUTION OF RESPONDENTS

	BANKS	SAVINGS & LOAN	FINANCE COMPANIES
NORTHEAST			
Connecticut	1	0	1
Maine	1	0	0
Massachusetts	4	0	0
New Hampshire	1	0	0
New Jersey	1	0	0
New York	5	1	2
Pennsylvania	21	2	1
Rhode Island	0	0	0
Vermont	1	1	0
EAST NORTH CENTRAL			
Illinois	15	4	0
Indiana	18	2	1
Michigan	11	5	0
Ohio	7	12	1
Wisconsin	7	2	0
WEST NORTH CENTRAL			
Iowa	5	3	0
Kansas	14	0	1
Minnesota	14	2	1
Missouri	12	3	0
Nebraska	7	1	0
North Dakota	3	2	0
South Dakota	2	0	0
SOUTH ATLANTIC			
Delaware	2	0	0
Florida	15	3	3
Georgia	6	3	1
Maryland	5	0	1
North Carolina	14	0	4
South Carolina	2	0	1
Virginia	7	1	0
West Virginia	10	3	0
SOUTH CENTRAL			
Alabama	4	0	1
Arkansas	7	0	0
Kentucky	7	0	1
Louisiana	6	1	1
Mississippi	3	2	0
Oklahoma	1	3	1
Tennessee	3	2	1
Texas	13	6	3

REGIONAL DISTRIBUTION OF RESPONDENTS (Continued)

	BANKS	SAVINGS & LOAN	FINANCE COMPANIES
MOUNTAIN			
Arizona	2	3	0
Colorado	5	2	0
Idaho	6	0	0
Montana	6	0	0
Nevada	2	0	0
New Mexico	6	1	0
Utah	3	0	0
Wyoming	2	0	0
PACIFIC			
California	7	7	1
Oregon	4	2	1
Washington	7	7	1
State not identified on survey:	2	3	1
TOTAL	307	88	30

DISTRIBUTION OF RESPONDENTS BY SIZE

GROSS OUTSTANDINGS (in millions)	BANKS	SAVINGS & LOAN	FINANCE COMPANIES	TOTAL
Under $10.0	261	55	9	325
$10.0 and Over	44	31	19	94
Did not answer question	–	–	–	6
ALL SIZES COMBINED:				425

NUMBER OF YEARS EXPERIENCE IN MOBILE HOME FINANCING

	TOTAL	%	BANKS	%	FINANCE COMPANIES	%	SAVINGS & LOAN ASSOCIATIONS	%
REPORTING INSTITUTIONS:	379	100.0	274	100.0	27	100.0	78	100.0
1 to 4 Years	24	6.3	13	4.7	5	18.6	6	7.7
5 to 9 Years	172	45.4	94	34.3	10	37.0	68	87.2
10 to 19 Years	124	32.7	115	42.0	6	22.2	3	3.8
20 to 29 Years	47	12.4	41	15.0	6	22.2	–	–
30 or More Years	12	3.2	11	4.0	–	–	1	1.3
No Answer	46		33		2		11	
Average	10.98 Years		11.99 Years		11.78 Years		7.14 Years	

INSTITUTIONS CURRENTLY ACTIVELY ENGAGED IN MOBILE HOME FINANCING

	TOTAL	%	BANKS	%	FINANCE COMPANIES	%	SAVINGS & LOAN ASSOCIATIONS	%
REPORTING INSTITUTIONS:	416	100.0	300	100.0	29	100.0	87	100.0
YES	325	78.1	232	77.3	23	79.3	70	80.5
NO	91	21.9	68	22.7	6	20.7	17	19.5

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VALUE OF MOBILE HOME RETAIL PAPER OUTSTANDING AND NUMBER OF ACCOUNTS OF REPORTING INSTITUTIONS

Totals of All Institutions:	1977	1976	1975	1974	1973
Reporting Institutions	425	449	419	313	372
Dollar Value	$6,615,552,000	$6,519,908,000	$3,368,556,000	$5,795,465,760	$4,650,281,753
Average Account Value	$9,975	$9,518	$7,769	$7,837	$7,453
Accounts Outstanding	662,978	684,068	690,595	739,496	623,961

Accounts Outstanding Financed by Banks, Finance Companies, and Savings and Loan Associations

	1977	1976	1975	1974	1973
BANKS					
Reporting Institutions	367	315	321	228	246
Dollar Value	$2,045,515,000	$2,258,628,000	2,297,150,000	1,922,579,985	2,227,169,508
Average Account Value	$10,279	$8,963	7,949	7,864	7,639
Accounts Outstanding	199,031	251,861	288,685	244,475	291,556
FINANCE COMPANIES					
Reporting Institutions	29	40	34	25	27
Dollar Value	$3,474,297,000	$3,254,333,000	2,624,485,000	3,429,151,198	1,826,399,982
Average Account Value	$9,143	$9,245	7,190	7,516	6,771
Accounts Outstanding	379,971	351,545	364,801	456,219	269,719
***SAVINGS AND LOAN ASSOCIATIONS**					
Reporting Institutions	29	94	64	60	99
Dollar Value	$1,095,540,000	$806,947,000	446,921,000	443,734,577	596,712,263
Average Account Value	$13,038	13,229	12,079	11,436	9,519
Accounts Outstanding	83,546	60,662	37,109	38,802	62,686

Number of Loans Made in 1977 By Banks, Finance Companies, and Savings and Loan Associations:

	Total	%	Banks	%	Finance Companies	%	Savings & Loan	%
Reporting Institutions	378		268		26		82	
Total Loans Made in 1977	100,595	100.0	36,234	100.0	48,488	100.0	16,871	100.0
Total Direct Loans	25,928		12,386		8,928		2,664	
Total Indirect Loans	77,613		23,848		39,561		14,209	

*Savings and Loan Associations are relative new comers to mobile home financing which is the most probable reason for the high average account value.

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MINIMUM ACCEPTABLE DOWN PAYMENT

REQUIRED BY FINANCIAL INSTITUTIONS

REPORTING INSTITUTIONS	ALL INSTITUTIONS	BANKS	FINANCE COMPANIES	SAVINGS & LOAN ASSOCIATIONS
Single-section, New	376	282	24	70
Multi-section, New	322	233	22	67
Single-section, Used	348	262	20	66
Multi-section, Used	288	208	18	62
LESS THAN 10% DOWN				
Single-section, New	0.3	0.4	--	--
Multi-section, New	0.3	0.4	--	--
Single-section, Used	1.1	1.1	--	--
Multi-section, Used	0.7	1.0	--	--
10%				
Single-section, New	37.2	30.9	79.2	48.6
Multi-section, New	23.6	19.3	40.9	32.8
Single-section, Used	23.9	16.8	55.0	42.4
Multi-section, Used	17.4	11.1	22.2	37.1
11%				
Single-section, New	25.0	25.5	20.8	24.3
Multi-section, New	26.4	24.0	50.0	26.9
Single-section, Used	21.2	19.9	45.0	19.7
Multi-section, Used	21.1	17.8	66.7	19.3
16%				
Single-section, New	21.6	24.5	--	20.2
Multi-section, New	30.5	33.5	9.1	26.9
Single-section, Used	26.1	28.2	--	25.7
Multi-section, Used	32.0	34.6	11.1	29.0
21%				
Single-section, New	12.8	15.6	--	5.7
Multi-section, New	15.5	18.9	--	9.0
Single-section, Used	17.5	22.1	--	4.5
Multi-section, Used	19.4	23.5	--	11.3
MORE THAN 25%				
Single-section, New	3.2	3.2	--	4.3
Multi-section, New	3.7	3.9	--	4.5
Single-section, Used	10.1	11.8	--	6.1
Multi-section, Used	9.4	12.0	--	3.2
AVERAGE MINIMUM ACCEPTABLE DOWN PAYMENT				
Single-section, New	16.28	17.13	10.88	14.67
Multi-section, New	17.50	18.20	13.23	16.48
Single-section, Used	18.73	20.11	12.05	15.29
Multi-section, Used	19.26	20.62	14.22	16.16

AVERAGE OR TYPICAL MATURITY ON NEW LOANS MADE IN 1977

REPORTING INSTITUTIONS	ALL INSTITUTIONS	BANKS	FINANCE COMPANIES	SAVINGS & LOAN ASSOCIATIONS
Single-section, New	362	268	24	70
Multi-section, New	287	204	22	61
Single-section, Used	330	255	17	58
Multi-section, Used	205	157	12	36
LESS THAN 60 MONTHS				
Single-section, New	4.4	5.2	--	2.9
Multi-section, New	1.7	2.0	--	1.6
Single-section, Used	16.1	19.2	--	6.9
Multi-section, Used	6.3	7.0	--	5.6
60 MONTHS				
Single-section, New	3.0	4.1	--	--
Multi-section, New	1.4	2.0	--	--
Single-section, Used	20.9	22.4	5.9	19.0
Multi-section, Used	11.2	14.0	--	2.8
61 TO 84 MONTHS				
Single-section, New	11.9	15.7	4.2	--
Multi-section, New	3.8	5.4	--	--
Single-section, Used	41.0	40.8	47.0	39.7
Multi-section, Used	26.8	30.0	--	22.2
85 TO 120 MONTHS				
Single-section, New	46.4	52.2	37.6	27.1
Multi-section, New	27.1	36.3	9.0	3.3
Single-section, Used	21.2	16.9	41.2	43.4
Multi-section, Used	44.0	40.8	83.4	44.5
121 TO 144 MONTHS				
Single-section, New	32.3	21.2	58.4	65.7
Multi-section, New	43.6	43.2	50.0	42.6
Single-section, Used	.9	.8	5.9	--
Multi-section, Used	9.3	6.3	16.7	19.5
MORE THAN 144 MONTHS				
Single-section, New	1.9	1.5	--	4.3
Multi-section, New	22.3	11.3	40.9	52.5
Single-section, Used	--	--	--	--
Multi-section, Used	2.4	1.9	--	5.6
AVERAGE MATURITY (IN MONTHS)				
Single-section, New	115.9	110.6	128.8	132.0
Multi-section, New	138.4	131.1	152.9	157.9
Single-section, Used	75.0	72.5	88.9	82.1
Multi-section, Used	97.4	94.2	115.2	105.6

MAXIMUM MATURITY ON NEW LOANS MADE IN 1977

REPORTING INSTITUTIONS	ALL INSTITUTIONS	BANKS	FINANCE COMPANIES	SAVINGS & LOAN ASSOCIATIONS
Single-section, New	364	267	25	72
Multi-section, New	303	217	22	64
Single-section, Used	330	255	18	57
Multi-section, Used	225	172	14	39
LESS THAN 60 MONTHS				
Single-section, New	3.3	3.0	--	5.6
Multi-section, New	2.0	1.8	--	5.6
Single-section, Used	8.5	9.0	--	3.1
Multi-section, Used	4.0	4.7	--	2.6
60 MONTHS				
Single-section, New	1.4	1.9	--	--
Multi-section, New	.7	.9	--	--
Single-section, Used	13.9	17.3	--	3.5
Multi-section, Used	8.9	11.0	--	2.6
61 TO 84 MONTHS				
Single-section, New	9.1	12.4	--	--
Multi-section, New	3.7	5.0	--	--
Single-section, Used	25.7	30.6	11.2	8.8
Multi-section, Used	17.7	22.6	--	2.6
85 MONTHS				
Single-section, New	30.5	37.5	8.0	12.5
Multi-section, New	17.1	23.5	--	1.6
Single-section, Used	41.8	38.0	72.3	49.2
Multi-section, Used	45.7	46.5	57.2	28.4
121 MONTHS				
Single-section, New	45.9	38.6	80.0	61.1
Multi-section, New	38.0	44.2	31.8	18.8
Single-section, Used	8.2	3.9	16.7	24.7
Multi-section, Used	16.8	9.9	42.9	38.5
MORE THAN 144 MONTHS				
Single-section, New	9.9	6.7	12.0	20.8
Multi-section, New	38.6	24.4	68.2	76.6
Single-section, Used	1.8	1.2	--	5.3
Multi-section, Used	6.7	5.2	--	15.4
AVERAGE MAXIMUM MATURITY (IN MONTHS)				
Single-section, New	129.1	124.2	146.4	141.2
Multi-section, New	150.2	142.0	170.2	170.9
Single-section, Used	94.7	89.5	111.7	112.8
Multi-section, Used	111.4	105.3	126.9	132.6

COMPARATIVE PORTFOLIO PROTECTION METHODS

	TOTAL	%	BANKS	%	FINANCE COMPANIES	%	SAVINGS & LOAN ASSOCIATIONS	%
Reporting Institutions	330	100.0	251	100.0	19	100.0	60	100.0
Dealer Recourse Agreement	215	65.2	164	65.3	13	68.4	38	63.3
Dealer Repurchase Agreement	141	42.7	100	39.8	11	57.9	30	50.0
Private Mortgage Insurance	115	34.8	85	33.9	5	26.3	25	41.7
FHA Insurance	40	12.1	17	6.8	9	47.4	14	23.3
VA Guaranty	34	10.3	8	3.2	10	52.6	16	26.7
Non-Recourse Reserve	138	41.8	92	36.7	6	31.6	40	66.7
Service Company	19	5.8	12	4.8	—	—	7	11.7
Credit Bond Insurance	15	4.5	14	5.6	—	—	1	1.7
Los Reserve	3	.9	1	.5	—	—	2	3.3
Miscellaneous	44	13.3	27	10.8	5	26.3	12	20.0

NOTE: Reporting institutions may use several of the listed protection methods, not just one.

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FINANCING BASIS FOR MULTI-SECTION MOBILE HOMES

	TOTAL	%	BANKS	%	FINANCE COMPANIES	%	SAVINGS & LOAN ASSOCIATIONS	%
Reporting Institutions								
1975	347	100.0	260	100.0	32	100.0	55	100.0
1976	439	100.0	310	100.0	39	100.0	90	100.0
1977	335	100.0	240	100.0	24	100.0	71	100.0
Simple Interest								
1975	35	10.1	19	7.3	9	28.1	7	12.7
1976	52	11.8	32	10.3	6	15.4	14	15.6
1977	70	17.6	45	15.4	6	23.1	19	24.4
Add-on Pre-Computed Interest								
1975	281	81.0	219	84.2	23	71.9	39	70.9
1976	280	63.8	199	64.2	29	74.4	52	57.8
1977	234	58.9	169	57.7	17	65.4	48	61.5
Both								
1975	31	8.9	22	8.5	—	—	9	16.4
1976	39	8.9	26	8.4	2	5.1	11	12.2
1977	31	7.8	26	8.9	1	3.8	4	5.1

INSTALLMENT DELINQUENCIES

Totals of All Institutions:

	1977	%	1976	%	1975	%	1974	%	1973	%
Reporting Institutions	411	100.0	442	100.0	407	100.0	306	100.0	363	100.0
Accounts Outstanding	657,513	100.0	656,130	100.0	681,923	100.0	666,465	100.0	580,391	100.0
Accounts Delinquent	22,207	3.4	26,488	4.0	33,008	4.8	25,128	3.8	23,558	4.1
30–59 Days	12,904	2.0	16,060	2.4	19,120	2.8	15,822	2.4	15,550	2.7
60–89 Days	5,500	0.8	4,908	0.7	7,701	1.1	5,439	0.8	5,108	0.9
90 Days Plus	3,803	0.6	5,520	0.8	5,624	0.8	3,867	0.6	3,010	0.5

By Banks, Finance Companies and Savings and Loan Associations:

BANKS	1977	%	1976	%	1975	%	1974	%	1973	%
Reporting Institutions	296	100.0	310	100.0	310	100.0	225	100.0	239	100.0
Accounts Outstanding	197,142	100.0	245,338	100.0	283,513	100.0	194,384	100.0	251,438	100.0
Accounts Delinquent	8,124	4.1	8,478	3.4	10,939	3.8	8,784	4.5	8,667	3.4
30–59 Days	5,521	2.8	5,776	2.4	6,844	0.4	5,518	2.8	5,538	2.2
60–89 Days	1,479	0.8	1,656	0.7	2,015	0.7	1,733	0.9	1,910	0.8
90 Days Plus	1,124	0.6	1,046	0.4	1,517	0.5	1,533	0.8	1,219	0.5
FINANCE COMPANIES										
Reporting Institutions	29	100.0	40	100.0	33	100.0	21	100.0	26	100.0
Accounts Outstanding	379,971	100.0	351,545	100.0	361,301	100.0	433,279	100.0	268,617	100.0
Accounts Delinquent	10,670	2.8	15,466	4.4	20,311	5.6	13,547	3.1	11,524	4.3
30–59 Days	5,333	1.4	6,756	2.5	11,263	3.1	8,925	2.0	8,008	3.0
60–89 Days	3,334	0.9	2,742	0.8	5,346	1.5	2,851	0.7	2,293	0.9
90 Days Plus	2,157	0.6	3,968	1.1	3,712	1.0	1,871	0.4	1,223	0.5
SAVINGS AND LOAN ASSOCIATIONS										
Reporting Institutions	86	100.0	92	100.0	64	100.0	60	100.0	98	100.0
Accounts Outstanding	80,400	100.0	59,247	100.0	37,109	100.0	38,802	100.0	60,336	100.0
Accounts Delinquent	3,413	4.2	2,544	4.3	1,758	4.7	2,797	7.2	3,367	5.6
30–59 Days	2,224	2.8	1,528	2.6	1,023	2.8	1,479	3.8	1,894	3.1
60–89 Days	667	0.8	510	0.9	340	0.9	855	2.2	905	1.5
90 Days Plus	522	0.6	506	0.9	395	1.0	463	1.2	568	0.9

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MOBILE HOME LOANS PAID OFF BY REPAYMENT AND PREPAYMENT DURING 1977

	TOTAL	%	BANKS	%	FINANCE COMPANIES	%	SAVINGS & LOAN ASSOCIATIONS	%
REPORTING INSTITUTIONS	294	100.0	198	100.0	19	100.0	77	100.0
Accounts Outstanding	398,905	100.0	124,872	100.0	209,341	100.0	64,692	100.0
Loans Paid Off by Repayment	46,747	11.7	23,667	19.0	15,797	7.5	7,283	11.3

MOBILE HOME LOANS PAID OFF BY REPOSSESSION DURING 1976

	TOTAL	%	BANKS	%	FINANCE COMPANIES	%	SAVINGS & LOAN ASSOCIATIONS	%
REPORTING INSTITUTIONS	367	100.0	263	100.0	23	100.0	81	100.0
Accounts Outstanding	432,470	100.0	144,637	100.0	214,244	100.0	73,589	100.0
Loans Paid Off by Repossession	15,361	3.6	2,284	1.6	11,510	5.4	1,567	2.1

REPOSSESSIONS IN TOTAL OUTSTANDINGS AS OF DECEMBER 31

	TOTAL	%	BANKS	%	FINANCE COMPANIES	%	SAVINGS & LOAN ASSOCIATIONS	%
1975								
Reporting Institutions	407		310		33		64	
Accounts Outstanding	681,923	100.0	283,513	100.0	361,301	100.0	37,109	100.0
Repossessions in Outstandings	11,013	1.6	2,812	1.0	7,486	2.1	715	1.9
1976								
Reporting Institutions	442		310		40		92	
Accounts Outstanding	656,130	100.0	245,338	100.0	351,545	100.0	59,247	100.0
Repossessions in Outstandings	6,092	.9	1,508	.6	4,048	1.2	536	.9
1977								
Reporting Institutions	411		296		29		86	
Accounts Outstanding	657,513	100.0	197,142	100.0	379,971	100.0	80,400	100.0
Repossessions in Outstandings	4,437	.7	1,368	.7	2,477	.7	592	.7

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NET ACTIVITY OF RESPONDING INSTITUTIONS

	TOTAL	%	BANKS	%	FINANCE COMPANIES	%	SAVINGS & LOAN ASSOCIATIONS	%
1975								
Accounts Outstanding Beginning of Year	654,829	100.0	283,902	100.0	339,020	100.0	31,907	100.0
Loans Advanced	116,522	17.8	47,090	16.5	61,111	18.0	8,321	26.1
Repayment Liquidations	(64,561)	9.8	(35,913)	12.6	(26,512)	7.8	(2,136)	6.7
Repossession Liquidations	(16,195)	2.5	(6,394)	2.2	(8,818)	2.6	(983)	3.1
Net Activity	35,766	5.5	4,783	1.7	25,781	7.6	5,202	16.3
Accounts Outstanding End of Year	690,595	105.5	288,685	101.7	364,801	107.6	37,109	116.3
1976								
Accounts Outstanding Beginning of Year	614,207	100.0	214,319	100.0	346,516	100.0	53,372	100.0
Loans Advanced	144,141	23.5	79,971	37.3	50,076	14.4	14,094	26.4
Repayment Liquidations	(75,694)	12.4	(38,794)	18.1	(31,775)	9.2	(5,125)	9.6
Repossession Liquidations	(18,586)	3.0	(3,635)	1.7	(13,272)	3.8	(1,679)	3.1
Net Activity	49,861	8.1	37,542	17.5	5,029	1.4	7,290	13.7
Accounts Outstanding End of Year	664,068	108.1	251,861	117.5	351,545	101.4	60,662	113.7
1977								
Accounts Outstanding Beginning of Year	623,463	100.0	189,148	100.0	358,790	100.0	75,525	100.0
Loans Advanced	101,593	16.3	36,234	19.2	48,488	13.5	16,871	22.3
Repayment Liquidations	(46,747)	7.5	(23,667)	12.5	(15,797)	4.4	(7,283)	9.6
Repossession Liquidations	(15,361)	2.5	(2,284)	1.2	(11,510)	3.2	(1,567)	2.1
Net Activity	39,485	6.3	10,283	5.4	21,181	5.9	8,021	10.6
Accounts Outstanding End of Year	662,948	106.3	199,431	105.4	379,971	105.9	83,546	110.6

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This interview with Dave Leichey, chairman of the MHI Finance Committee is the first in a series with the members of that committee. If you have questions you would like us to ask the experts, send them to: The Editor, Mobile Home MERCHANDISER, 2602 Gross Point Road, Evanston, Illinois 60201.

Q—*What is the finance picture for the manufactured housing industry in 1977?*

A—From the standpoint of availability of funds for the manufactured housing industry, **the outlook is extremely good.** We have approximately 3,000 lenders actively involved in financing manufactured homes today. One would expect this number to increase by a couple hundred over the next 12 months.

The critical part of the finance picture for '77 is the method in which manufactured homes are being financed. Dramatic changes must take place in the next 12 months in the type of financing that is available, or the availability of funds in itself will not be the answer to the financing needs of the industry during the coming year.

Q—*Do you see any new lenders entering the manufactured housing finance business?*

A—Any additions to the number of lenders who are financing our industry's homes will come from smaller banks and savings and loans which are generally in rural areas. This is probably good, since collectively, **it is the small lender in the small community which makes up the bulk of the manufactured home loan portfolio.**

We can expect some expansion to come from the large, national institutions which have serviced the industry for years. This type of expansion of dollars that are committed to the industry will probably come from new programs that they will be adding to their existing portfolio—such as the Federal programs, and in some cases, unique new financing methods that some of the major banks are exploring at this time.

Q—*Is the finance service company concept dead in the manufactured housing industry?*

A—For all practical purposes, the finance service company is a thing of the past—as it relates to our industry. The handful of finance service companies that remain are basically legitimate institutions, although their contribution to the industry in relation to the total manufactured housing portfolio this year will be very small.

Unfortunately, because of some of the past problems experienced from this segment of the lending community, it is very difficult for a service company today to impress upon its client (i.e. the bank or savings and loan), that their services are needed or wanted.

I believe in the coming year we will see very little activity from this group. However, those that do remain are aggressively seeking new markets.

Q—*What will be the cost of mobile home financing during 1977?*

A—The national prime rate is currently at 6¼%. Rumors are that by the end of the year, it may reach a 7% level. At its current rate, our retailers are paying approximately 8½% for their wholesale floorplanning. There has been no significant change recently to the retail rate for manufactured housing financing, although some lenders are converting to the simple interest method of payment which could result in a lower interest rate for our retail contracts.

The 6¼% prime rate should be very helpful to the industry, at least for the next 12 months. **Retailers and their customers should enjoy a very favorable interest rate structure**—something they haven't seen in the last couple years.

Q—*What role will government financing programs play in the manufactured housing finance picture?*

A—The Federal Housing Administration (FHA) Title I program is being reviewed by HUD and Government National Mortgage Association (GNMA—ginnie mae) at this time. Meetings are taking place for the purpose of studying the weaknesses in the Title I program, and hopefully the product of some of these discussions will be reform in '77—reform which is needed to make this program viable.

One important area of change which Congress will have to address itself to, is the maximum loan ceilings which currently exist in the Title I program. Singlewides have a maximum loan ceiling of $12,500, and the double-wide loan ceiling is $15,000.

Due to the inflationary spiral, these ceilings, which are about a year old, are already obsolete. **Unless Congress changes them this year, we will be faced with the crippling problem of increased downpayment requirements for those customers who choose to use Title I financing.**

Along with the difficulty with the loan ceilings is the on-going problem of delinquencies and repossessions in the Title I portfolio. Both the issuers of Title I financing and HUD are concerned about the track record the manu-

factured housing portfolio has had under Title I. Steps will be needed to correct the underwriting policies of the issuers to guarantee a more successful portfolio next year.

Some of the problems that caused delinquencies and repossessions have already been corrected—either by the issuer or by FHA—and one would envision that the seriousness of these delinquencies will not expand in the coming months.

As far as the Veterans Administration (VA) program is concerned, I see a lot of exciting things happening for the manufactured housing program during the coming months.

Recently, Congress passed a 50% maximum loan guarantee, which has been of significant interest to the lenders, and secondly, GNMA announced its entry into the VA mobile home loan program as far as creating a secondary market. This is especially encouraging to the mortgage bankers who were previously involved in the Title I program.

The two changes, both dramatic in nature, have already created an interest with many conventional lenders who have been involved in the industry for some time. Some very large institutions have already indicated their desire to quickly develop a VA mobile home loan portfolio. I would also envision smaller institutions joining the bandwagon. **I think we're going to have a very competitive VA market for the industry in the next few months.**

Q—*Does the industry have control over delinquencies and repossessions?*

A—At the moment, the American Banking Association statistics on mobile home delinquencies and repossessions are very encouraging. Both categories have stabilized compared to the same month a year ago, and it is expected that there will be no deterioration—at least for the next year.

Part of the optimism regarding the role that delinquencies and repossessions will play is based on the fact that lenders writing manufactured home loans today have pretty much adjusted their underwriting policies to take a more conservative position on the type of customers they are qualifying. This decision by the lending community should show up in the coming months as far as delinquencies and repossessions are concerned.

Then, the economy in general is stabilizing, and the customers' ability to meet these obligations has improved over the previous years. One would expect the tendency to default will diminish in 1977.

Q—*What is the availability of wholesale floorplanning for manufactured housing retailers today?*

A—The outlook for the availability of funds for wholesale floorplanning is very good—probably the best it's been in two years.

We have received very few complaints from retailers that they are unable to acquire an adequate source of wholesale floorplanning.

In addition, one of the major lending institutions in the industry has embarked upon a $500 million floorplanning program which will not only bring new funds into the industry for that purpose, but will also encourage competition to make similar commitments in this area. With the prime rate very low at this time, and lenders eager to provide floorplanning, I think we're going through one of the most encouraging years for the industry in some time as far floorplanning availability.

Q—*Is there financing available today for the BOCA, SBC or Minimum Property Standard homes which are being produced by many manufactured housing manufacturers?*

A—The Minimum Property Standard, BOCA, SBC type structure is quite new not only to the industry, but to the lending community. Because of its newness, lenders who have historically financed mobile homes really do not have a specialized program available for this type manufactured home. Lender acceptance for this new concept of financing (which is very similar to site-built financing—which the lending community is very familiar with) is difficult to find and will take a strong effort on the part of the manufacturer, retailer and developer to expand.

Part of the problem in educating the lender to this new concept of housing is the necessary commitment from the lender for interim financing. Unlike the interim or construction financing that is available to site-built developers, the lender must create an entirely new portfolio to handle the code home. This is caused in part by the fact that the home is placed on the site and is available for acceptance by the customer in less time than in the site-built industry where construction time may take weeks or months.

The short time period raises questions about payoffs and percentage of payoff, and the period of security in the construction loan. The answers to these questions must be found before the flow funds will be available for interim financing.

Secondly, the question of loan security as it effects the retail contract itself and closing of escrows is raised.

None of these problems are so dramatic that they can't be overcome, but they are new items for the lender and he must be educated and trained to adapt to a program that is complimentary to our industry.

Success in finding lenders to finance the Minimum Property Standard, BOCA or SBC home has come pretty much on a one by one basis so far. The interest seems to come from local savings and loans and local banks.

Q—*What effect does the FTC's recent holder in due course regulation have on the manufactured housing industry.*

A—Fortunately, to this point, the regulation has not caused any dramatic problems with the lending community. **To date, only a handful of lenders have chosen to discontinue their manufactured housing portfolio because of the regulation,** and one would question why they made that departure from the industry.

There is no known record of any retail customer successfully introducing a claim under the FTC holder in due course regulation because of disenchantment with the home, and there have been no decisions made awarding claims to retail customers in our indus-

try.

As the regulation becomes more popular in the public's mind, one would envision that we may be plagued with a claim or two. But the exposure to the lender created by the regulation is not expected to create any turmoil in our lending community.

We're very excited that the majority of lenders have taken a very positive attitude toward the industry as it relates to the regulation, and we expect that attitude to continue in the months to come.

Q—*What is the Manufactured Housing Institute doing to stimulate manufactured home financing?*

A—As you are probably aware, MHI has a very active finance committee which is responsible for stimulation of new sources of financing and improving those sources which already exist. Over the coming months, the committee is planning the Third Annual World Congress of Manufactured Housing Finance. The conference, which is the industry's largest forum on financing, will be held in San Francisco, California this year, June 7 and 8 at the Fairmont Hotel. A national lender directory of all the financing companies that are actively involved with the industry is also in the works. The directory, which will be alphabetical by state, will give retailers, manufacturers and retail customers the opportunity to seek out a source of financing in their particular area.

We're very excited about this new project, and feel that the directory itself is much needed.

The committee is also about to publish its Annual Manufactured Housing Finance Survey. It will show the condition of manufactured housing finance in 1976. Our projection is to release the survey during MHI's annual meeting next month.

A subcommittee is investigating the evaluation of used mobile homes, and studying the "guides" which various companies produce. We plan to publish a white paper on the subcommittee's findings later this year.

It was decided that the finance committee will continue its involvement in the conventions of the American Bankers Association, the U.S. League of Savings and Loan Associations, and the Mortgage Bankers Association. We have received some very favorable comments from our activities and involvement in these conventions in the past.

Q—*Can you summarize the finance picture for the next 12 months?*

A—We must address ourselves to the critical problem of having a home which is subject to, basically, an obsolete method of financing.

The benefits of having a low cost shelter alternative is lost in the high cost of monthly payments resulting from the unworkable finance plans available today. I am hopeful that the lending community will examine their finance plans and quickly develop a manufactured home loan program which results in lower monthly payments. This can be achieved by an extention of the maturities, conversion to simple interest, and the manufacturers' cooperative elimination of furniture as part of the home—especially in the sectional product.

We have the lenders' commitments in the area of availability of funds. We desperately need their help to reform the methods of financing our products.

Q—*What kind of information should the retailer take to interest a new lender?*

A—A retailer who is trying to secure a new source of financing may want to be prepared to sell the lender on the benefits of manufactured housing financing. This can be accomplished by educating the lender either verbally or through printed material. Also, the retailer may want to bring a manufacturer along with him, or have the manufacturer invite the lender out to the plant for a quick education in the construction of the home.

The state and national trade associations are available to assist the retailer.

Q—*Where should the retailer go to get more information about the FHA and VA programs?*

A—If a retailer is interested in developing a FHA or VA loan portfolio, he can go several places to get information.

He may be fortunate enough to have an FHA or VA lender in his area who is already writing this type loan and can provide the background necessary for marketing the government programs.

If not, he can go to the VA or FHA regional offices, or contact the responsible parties in Washington, D.C.

The retailer can also get assistance by approaching MHI or its finance committee. There is an abundance of printed material on both of the federal programs available to the retailer on request.

Q—*Is there any way to lower the current downpayment requirements of 20% to 25%, or is there any way to get around this problem?*

A—The downpayments which exist today for the industry are exorbitant. **We have asked the lending community on numerous occasions to consider reducing the downpayment requirements to the area of 10% or 15%.**

Now, to dramatically reduce the downpayment could expose the lender to an increase in repossessions. To balance that exposure, we're suggesting to the lending community that they strengthen their underwriting requirements for the customers who may choose to purchase our products.

By taking a more conservative approach to the other underwriting requirements, we may be able to safely reduce the front end downpayment requirements. This would allow more customers to acquire manufactured housing loans.

I would not advocate, however, anything less than 10% downpayment.

As for alternatives, there aren't any. The downpayment requirement is an individual decision made by each institution in the lending community. The only change that can come prior to a general reform of the financing package, would be for an individual lender to take an aggressive step and lower the downpayment. Then, through competition, other lenders in the area would be forced to make similar reductions. This is taking place in several marketing areas at this time. □

This interview with Joe Salm, staff vice president, and Wayne Bengston, consumer lending specialist, of the U.S. League of Savings Associations is the second in a series with members of the MHI Finance Committee. If you have questions you would like us to ask the experts, send them to: The Editor, Mobile Home MERCHANDISER, 2602 Gross Point Road, Evanston, Illinois 60201.

Q—*How does the savings and loan institution fit into the total financial community?*

A—(Salm) Savings and loan institutions are the second largest financial intermediary accepting over the counter deposit liabilities. Historically, since 1831, savings and loans have filled two simple roles. We accept savings and we invest in home loans. We have broadened our structure in recent years, but we're still primarily involved with savings and home loans, **and we're the only financial institution this specifically committed to residential real estate.**

At the end of 1976, there were approximately 4,900 savings and loans with about 11,000 branches across the country.

Joe Salm

Around 70% of those associations were under $50 million in size, so **most of the institutions operate on a local basis.** At the largest, they operate statewide.

Q—*What is the current involvement of savings and loans with the mobile home industry?*

A—(Salm) Some of our people are making all the types of loans attendant to the mobile home industry.

(Bengston) **We have approximately 18% to 20% of the total mobile home loans outstanding, and we have a larger percentage of our total assets invested in mobile homes than do commercial banks.**

(Salm) In addition, current Federal Reserve statistics indicate that finance companies and commercial banks are liquidating their outstandings in mobile homes. **The involvement of savings and loans has been increasing.**

(Bengston) In 1975, when mobile home shipments were down, and finance company and commercial bank involvement dropped, ours increased something like 10%. In 1976, we believe the trend will undoubtedly continue.

Q—*What about the future involvement of savings and loans in the industry?*

A—(Bengston) **In the future, I think our involvement will increase.** We don't anticipate a tremendous growth, like 50% or 60%, but I think it will be a slow, evolutionary increase.

(Salm) You have to remember that our institutions were only given the power to invest in mobile home paper in 1970, so we've only had six years to come from zero. Now, mobile home loans are almost equal to our home improvement loan portfolio.

Q—*What factors will be involved in the increasing involvement of savings and loans in the mobile home industry?*

A—(Bengston) **We see a greater demand for financing doublewides and modulars—homes that require longer financing.** The finance companies and banks, for the most part, are reluctant to finance homes that require longer maturities.

Retailers and consumers have to turn someplace other than the conventional finance programs to handle these loans. The maturities that the banks and finance companies offer just aren't adequate to handle double-wides and modulars in most cases.

Currently, with the larger mobile home that's going on land, we're probably already doing more than anybody else.

Q—*Many people feel that a switch from add-on interest to simple interest would help solve many of the mobile home industry's financing problems. What are the differences between the two, and would a switch be beneficial?*

A—(Salm) First, let me point out that **add-on and simple are just methods of interest charge, and there is no inherent magic to a method of interest charge to the borrower.**

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For example, if a person wants to borrow $10,000 and finance it over 10 years—120 months—we could compute that monthly payment by a simple interest method at a rate of charge of 12.41%, or we could compute it with 7.5% add-on. **In either case, we would come out at the same place—a monthly payment of $145.84.**

So, it isn't the method of charge which is the most important question, it's the level of charge.

If the people in the mobile home industry are saying simple interest with the idea that changing the method of charge will automatically reduce the level of charge, I think they may be mistaken.

Stated another way, if they think going from 7.5% add-on for 120 months with an annual percentage rate (APR) of 12.41% to simple interest will automatically result in the borrower being charged an APR of 8%, I'm afraid that's erroneous thinking.

But maybe that's being unfair. Maybe I'm putting words in the mouths of those people who are saying simple interest, but I have the feeling that what they are really talking about is mobile home finance in the same manner as real estate finance.

If they are, then **what has to be recognized is that the differences between current mobile home finance practice and the typical real estate practice encompass far far more than the mere question of simple interest versus add-on interest and the level of charge.** Even the term simple interest is a misnomer. There is nothing simple about it.

First, current mobile home financing is relatively quick and easy. Real estate financing is slow and cumbersome. The typical routine goes something like this:

1. the purchaser decides to buy a home;
2. the Realtor will help him in the direction of a financial institution;
3. the buyer will make an application at the financial institution;
4. credit will be checked;
5. an appraisal of the property will have to be made (our institutions can't make a loan without an appraisal);
6. title to the property will have to be checked;
7. there may be termite, building violation, and other inspections;
8. an attorney should be involved;
9. there will have to be a search to be certain taxes and assessments have been paid.

Now, I've given you a long list, and there are others I've left out. I should also point out that many of the costs of these steps are paid by the purchaser or seller, not the lender. Most of them arise outside of the financing transaction. Another cost to the purchaser is the "points" or closing costs. There is no separate charge like that in the typical mobile home contract.

Then, the real estate loan approval takes at least one or two weeks. With the typical mobile home contract, you can get credit approval in 24 hours.

Q—*Despite the difficulties you've outlined, aren't some mobile homes and modulars being financed as real estate?*

A—(Salm) Yes, but it doesn't show up in mobile home financing statistics.

If a retailer sells a mobile/modular with land, or if the purchaser has his own lot, and if under the laws of the particular state that home qualifies as real estate, it's not a question of mobile home financing. The purchaser of that mobile/modular home is going to go through all of the real estate routines. Legally, although it varies from state to state, that home has to be financed as real estate.

Q—*If real estate financing isn't the complete answer for mobile homes on rented land, could something else be done to bring the rate of charge for mobile home loans more in line with real estate interest charges?*

A—(Bengston) **I think there is a proper justification for the difference in rate of charge for real estate loans and mobile home loans.** This is what is forgotten so

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"It isn't the method of charge that is the most important question, it's the level of charge."

many times out in the industry.

When retailers and manufacturers say, 'we're part of housing so we should enjoy the same rates as real estate,' they are saying that if the loan is simple interest the customer will feel it's a real estate loan and be more comfortable. **This is the main reason they want simple interest—the image.**

At the same time, they fail to realize that there are good reasons why the rates can't be compatable.

First, it's a known fact that **delinquencies are much higher on mobile home type loans than on real estate loans.** In addition, the majority of mobile home loans are retailer originated—and retailer originated loans, whether they're mobile homes, automobiles or appliances, have for years carried a higher delinquency rate than do direct loans.

There is one basic reason—the lack of personal contact the lender has with the customer. In most mobile home loans, the lender does not see the customer; he cannot counsel with that customer. The lender has no relationship at all with the customer other than receiving the application and processing it.

(Salm) The second major reason why mobile home and real estate rates can't be the same is that our **loss experience on residential real estate is quite different than it can be on mobile home financing.**

(Bengston) Even the best run consumer loan department that is buying its paper in the best possible fashion will experience greater losses on mobile homes because, when you do have a loss, **you don't enjoy the appreciation on that mobile home that you have on a site-built home loan with the land attached.**

A good lender can expect to have one half of 1% of this total mobile home outstandings charged off. Naturally, this is going to pull his effective yield down. In real estate, you don't have this.

(Salm) It should be noted that Wayne is making a specific distinction here. He is talking about the mobile home that was financed as personal property and placed on rented land. His comments don't necessarily apply to the same home that was purchased and placed on owned land.

There is also a difference in rate based upon the relationship between purchase price and the amount of downpayment. The smaller the downpayment, the higher the interest rate charged on the loan, and the more likely that credit insurance will be required.

Currently, only 10% of the new site-built homes financed by savings and loans had 10% or less down, and only 4% of the existing homes financed had 10% or less down. The numbers we have become accustomed to in the mobile home industry are almost the reverse of that.

(Bengston) **Finally, in real estate financing, most of the costs are thrown back to the buyer, whereas in consumer type lending, they are not.** Also, a point that many forget, is that even on insured loans, the lender pays for this protection. In real estate, the borrower pays for it. This in itself justifies and requires a higher rate.

Q—*What about longer maturities? If the rate can't be reduced, couldn't payments be stretched over a longer period of time?*

A—(Bengston) Lenders may be a bit snortsighted in not recognizing that longer maturities don't make that much difference in terms of their exposure to loss. But what the mobile home retailer should realize is that **the effect of lengthening maturities on monthly payments decreases substantially as you go out longer and longer.**

We talked about a 7.5% add-on contract which was 120 months, with an APR of 12.41%. For a $10,000 loan, the monthly payment was $145.83.

If we move to 180 months, keeping the rate the same, the payment will go down to about $123. At 20 years the payment goes down to about $113—a difference of only $10. If you carry it to 25 years, the payment will be around $108.

The point is, while lengthening maturities help, it isn't the only answer. When you get past 20 years, you save peanuts.

Q—*Mobile homes are now constructed to Federal Safety and Construction Standards, and many manufacturers are meeting major codes such as BOCA. Do these improved standards help the industry with lenders?*

A—(Salm) Yes, certainly in the context of the mobile home treated as personal property on

"There is a proper justification for the difference in rate of charge for real estate loans and mobile home loans."

rented land. But at the risk of being a wet blanket, but trying to be honest, **there is no magic in codes, either, for homes treated as real estate on owned land.**

(Bengston) A particular code as adopted by the industry is not going to make that home acceptable to all lenders, because codes are minimum. **The appraiser or the lender is going to develop its own individual criteria or standards for acceptability** on a basis of, possibly those minimum codes, but more probably on a basis of how the home compares with other housing in the area in which the home will be located.

It's conceivable that a home may comply with BOCA, but if that home is going into an area where the other homes have a minimum of 2,000 sq. ft. and all the other amenities, then the home may be completely unacceptable to a lender in that particular area.

What it boils down to is that building to a specific code is not going to be a guarantee that all the lenders are going to beat a path to the manufacturer to finance a home for all areas.

(Salm) I think what the industry has to dig into is not the codes, but the disparity which might exist between the product and the typical site-built home in an area.

(Bengston) I also believe that the lender has a responsibility not only to the individual, but he has a larger responsibility to the community to see that certain standards are upheld.

(Salm) This brings us to another point. What we're saying is location, and that's one of the cornerstones of the appreciation/depreciation arguement. **Very, very much of the value of a home, irregardless of how many studs it has, depends upon where it's located.** There is an old appraisers' saying, 'The three things that determine the value of a home are: location; location; location.

Q—*What can the retailer do to cut through all the fog to eliminate the predjudices and demonstrate to the savings and loan community that his operation is deserving of its support?*

A—(Salm) What the retailer ought to do, whether he's selling low end or high end homes, **is visit with the local institution. But before doing so, he's got to do a lot of homework.**

The mobile home retailer already knows his business. **He has to learn what real estate finance is all about.** When he learns it, he must translate his language into the real estate lender's language. Don't talk about 'add-on,' talk about the 'simple interest equivalent.' Don't talk about the 'advance,' talk about the 'loan amount.' Don't talk about 'participation' directly, unless you realize that the lender never pays participation to the real estate broker. The seller pays it.

So, learn the language. Then what do you do?

Go to the savings and loan lender and say, 'Mr. savings and loan, you're the ones who profess to be the home financing specialists of the country. I provide housing. It's a different type of housing than what you may be familiar with. I want to show you what I do.'

Don't stop with the managing officer, however. Talk with the appraiser, the installment loan officer, the real estate loan officer, and members of the board of directors—and anybody else the managing officer may want to include.

Show them your dealership, inventory, homes sited in parks, where most of your units go, and a manufacturing plant. Go through profiles of some of the typical buyers of your homes—explaining that most of your homes are sold to people with 'this' income, occupation, and so forth.

One final note, don't go to your savings and loan man and call him a banker. He's a savings and loan man. It's no different than us calling the mobile home retailer a 'trailer seller.' The guy is proud he's a savings and loan man because that's something quite different than a commercial banker.

Q—*Can the park developer or local retailer enlist the aid of his savings and loan in convincing local zoning officials that mobile homes are housing?*

A—(Benston) After the retailer has convinced the lender, **he should enlist the aid of the managing officer and his staff to approach the city zoning commission and try to effect zoning changes.**

I think the industry has to depend upon the lender, and the lender has to do more to assist in zoning changes. But it can only be done after each one, lender and industry, understand their individual problems and their individual products. □

This interview with Dave Marriner, vice president of finance for Moduline International, and vice chairman of the MHI Finance Committee is the third in a series with members of that committee. If you have questions you would like us to ask the experts, send them to: The Editor, Mobile Home MERCHANDISER, 2602 Gross Point Road, Evanston, Illinois 60201.

Q—*What do you see as the major challenges facing the manufactured housing industry?*

A—I believe the three biggest challenges facing our industry are adequate financing, stringent land use regulations, and an evolution of the distribution network.

All three of these problem areas stem from the basic characteristics of manufactured housing—the things which made it so desirable in the first place. **Essentially, the very features that created the demand are the same ones that can hinder the industry's growth.**

For example, in the area of finance, a manufactured house isn't yet considered to qualify for real estate financing. People still look at the assemblyline construction and the method of delivery, and compare them to the concept of a home built on land. These features, I think, cloud the value of a manufactured home to the lender as collateral.

The second aspect is most people think of land as appreciating and the home depreciating. So, the life of a manufactured home, because it's not attached to the land, is questioned.

In reality, the actual life of a mobile home can be as long or longer than a site-built house. When the Federal Home Loan Bank Board (FHLBB) did a study to allow savings and loan associations to finance mobile homes, if I remember correctly, they really couldn't place a life on a mobile home. So, they felt safe in allowing the life as long as they have.

On the land use issue, I think that because the lenders have not really looked at manufactured homes in the same respect they do site-built housing, the communities have made restrictions as to where the manufactured home can be placed.

Again, the way our home is built, delivered and sold doesn't lend itself to the conventional concept, so communities have decided our homes shouldn't be placed among site-built houses in the community.

The third area, distribution is fine for the way the industry currently exists. **But I think the future of the industry lies with the true manufactured house.**

The industry has an excellent retailer network for handling the mobile home. It is very effective and has many advantages. The retailer network allows the mobile home manufacturer to achieve the efficiencies of assemblyline production and operate on a high volume basis.

But many retailers don't have the financial expertise or contacts to really further manufactured housing, in terms of getting longer financing, larger loans, and loans of a more conventional nature.

Retailers, I believe, typically think more in terms of putting mobile homes in parks than they do of putting homes on developed land. But the latter has got to be the coming thing with manufactured housing.

Q—*What can the industry do to meet these challenges?*

A—Well, if lenders aren't going to change their position—and it may not be to their advantage to do so—then **the industry is going to have to modify the home to meet the lenders' requirements, while retaining low cost, rapid output, and quality. If we lose these characteristics, we might as well all go out and be site-builders.**

The reason I say the lender may not have an incentive to change is his current method is profitable. Making 12 to 15 year loans at 10% to 13% interest with the low delinquency rates which, up until the last couple of years were very low, has been a very lucrative business. Why should a lender increase his risk on a loan portfolio which is currently very profitable?

Q—*Specifically, what could be done to change the product to conform to lenders' thinking?*

A—Many manufacturers are already moving in this direction. There are optional treatments that include wood siding, roof eaves with rain gutters and downspouts, and removable axles and tires which can be recycled. These changes make our product look more site-built on location.

Of course the problem is, if you do too much of this type of thing, your cost goes up—plus, we run the risk that the lender may still look at it in the same way. But this is the first step.

Then, our homes are already built to a national standard. In many cases, it is more stringent than requirements for site-built housing in certain areas. Also, many manufacturers are building to the FHA minimum property standards and or regional building codes. We must head more in

this direction to make our product more acceptable.

The industry is still, by necessity, too mobile home oriented. We provide major appliances, furniture, drapes, and many items of decor. The site-builder doesn't do these things.

So, as the transition from mobile home to manufactured home takes place, I think we'll find that many of these things will drop by the wayside. This will help offset other cost increases.

Q—*Are you saying that the mobile home industry as we know it must become modular, rather than have a new and separate industry grow from the mobile home industry?*

A—I think so. At one time, I thought that a separate modular industry would be created. But there isn't a distribution network, so at this point, I've changed my mind and really believe that the mobile home is going to evolve into that type of structure.

Many manufacturers are currently building a three or four section home in different shapes and configurations. **But they're still able to build those homes on their regular mobile home assembly line.** They lose a little bit of their efficiency, but they are very definitely able to intersperse these code or minimum property standard homes down the line when they find a market for them.

Q—*What kind of distribution system will probably develop?*

A—We're beginning to see a growth in interest on the part of the builder developer who would get a lot ready for a manufactured home.

The builder developer does his normal street improvement work, land development, and lot preparation. Then, he buys a manufactured home that is designed for that lot in that area.

It started with a mobile home subdivision, but now it's evolving, after some successful experience, into a manufactured house subdivision. The difference is that the buyer has the opportunity to own the land.

Once the home is attached to the land, the lender has had a shift in thinking, and automatically starts thinking longer term financing.

For the manufacturer, it means working with the emerging developer. We have to be careful. If we go too far, with too many options and specialty treatments, the advantages we discussed are lost. But the manufacturer has to keep in mind that the doors, windows and floorplans have to be designed so that when the home is placed on the owned lot—which is probably a little larger than the park site—it fits correctly with the land.

As this evolution takes place, it seems to me that the land use problem will have a tendency to take care of itself.

To help, however, I think there is going to be a continuing need for manufacturers to work on a local level with the local people to promulgate reasonable land use legislation to make sure there is favorable zoning for mobile home parks, mobile home subdivisions, and then for manufactured housing subdivisions.

It's not going to be an overnight change, so for the short term, there is a continuing need for the manufacturers and especially the retailers to work with local people to make them aware of the advantages, benefits and current developments in the manufactured house.

Q—*What are the current major problems in the area of mobile home finance and what can be done to solve these problems?*

A—We need to involve more lenders and we need to improve the programs the existing lenders have.

One important thing aimed at getting more lenders involved is the Third World Congress of Finance that's being held in San Francisco during June. The MHI Finance Committee has invited all lenders to participate to find out more about our industry. The Congress will include a tour of a manufacturing plant, and there will be a current manufactured home on display.

This, I think, will open the eyes of many lenders who have not recognized mobile homes as a viable alternative to low cost housing.

The existing program, the typical consumer installment loans, we should try and improve as best we can.

FHA and VA have been two of the best subsidiary programs, but they still have limitations. They're rapidly being outdated as the total amount available for a loan, ceilings on the interest rates, and just the amount of paperwork involved in getting a loan on a mobile home.

In response to what we can do to improve these two very good programs, FHA and VA, I'd like to touch on the fact that MHI, under the current reorganization that's taking place, and if it's approved at the annual meeting, will continue operation of the finance committee, and, if anything, will expand its activities.

I would expect to see a substantial increase in emphasis in working directly with the governmental agencies.

The work of the people who have dealt with FHA and VA has been excellent, but to a large extent, it has been the work of an individual or one company. What we would like to do, through the expertise of Walter Benning, the new president of MHI, is to **focus more directly on the legislative process.**

We would like to be able to present these agencies with proposed legislation, already drafted, which they could take to Congress.

Walking in with a draft of legislation might be more effective than just attending meetings or jawboning. We could increase our effectiveness on the national level by actually showing how to accomplish what needs to be done.

Q—*What can manufacturers do to improve the lending climate for the retailer?*

A—I think manufacturers have to maintain a quality product, and continue to minimize costs so that the home can be financed under current finance structures.

A very significant item is the provision of proper warranty ser-

vice on a timely basis. Not only is it required by HUD regulations, but good service will also instill confidence in the lender if he knows the manufacturer is going to stand behind the product, perform his warranty service, and not create a situation where the buyer feels the only way to get action is to not make the monthly payments.

Q—*What steps can be taken to better inform the lenders?*

A—Well, as Dave Leichey mentioned in the first interview, we have the finance congress and we are also preparing a lender directory. The directory will be helpful to both the industry and to lenders. Dealers and manufacturers can find out who is lending on mobile homes, and it will also make other lenders aware of who is financing mobile homes.

I think that when they see the extent of the market for mobile homes, and the success that many of the large financial institutions have had, it will draw others into lending money.

Then, I think we need to take steps to invite the lenders to see how the homes are built and how our product is changing—how it is coming more into line with his conception of what housing should be.

Q—*Last month, Joe Salm suggested taking lenders to see a plant. Is there any procedure retailers should follow if they want to do this?*

A—As far as I know, those manufacturers would be happy to show a lender their facilities.

However, the request should be made in advance through corporate headquarters.

Most manufacturers would also be more than happy to have a lender tour corporate headquarters, to give them an idea how the company is organized. Usually, the organization is split. Most are strongly decentralized from the manufacturing and sales standpoint, but typically heavily centralized from a design, decor, engineering and code standpoint. This is done so that we can maintain high volume on a consistant basis with the quality levels we insist on.

So, it would probably be very interesting to the lender to visit the engineering and design facilities where the product is prototyped before it is sent to the plants for construction.

Q—*How do programs like 235 and FmHA effect the industry?*

A—I think that anything which allows a person to buy a home that he would otherwise not be able to afford benefits the industry.

Again, the only negatives are the programs being kept current and the paperwork simplified. I suspect that many retailers do not want to bother, or are not equipped to handle the paperwork that is required to comply with the rules and regulations of these programs.

In turn, the lender may not want to bother. So, the programs have to be kept as simple as possible.

Q—*What steps should retailers take to obtain financing for multi-section or single-section homes on owned land?*

A—That's a tough question. Perhaps the real answer is the existing retailer may or may not be able to obtain this type financing.

The person who is best equipped to do it is the builder/developer who has been working in these areas in the past.

I suppose the retailer could approach a local builder/developer and work out an arrangement through him, trying to put a package together.

But whether the existing retailer is going to gain the educations and expertise to go into this type of development I don't know. My guess is that it will probably be the builder/developer who will start utilizing the manufactured house, rather than the typical retailer becoming a real estate developer.

Now, I could very well be proven wrong, and I'm sure it will go both ways. I'm sure there are many retailers who may be developers, and that there are those who are involved in real estate who will find themselves involved in manufactured housing.

Until now, neither side has had much incentive to change, but I think we're finding that, in the future, the growth of the housing industry may very well lie in this type of development. □

No. 28 on Express Action Card

No. 26 on Express Action Card

This interview with Jos. J. Bradley, vice president of specialized loans for the Bank of America National Trust and Savings Association is the fourth in a series with members of the MHI Finance Committee. If you have questions you would like us to ask the experts, send them to: The Editor, Mobile Home MERCHANDISER, 2602 Gross Point Road, Evanston, Illinois 60201.

But, lenders returning to the market still recognize the reasons for past bad experiences, and are placing more emphasis on the basics—good credit and purchaser equity.

Q—How would you describe the current involvement of commercial banks with the mobile home industry?

A—Following the boom years through 1973, the mobile home industry suffered some very definite setbacks resulting in a loss of confidence by many lenders, some of whom had been very active in mobile home lending. The road back has not been easy, but confidence is slowly being regained and the bad experiences hopefully are slipping out of memory.

I think the greatest impetus to renewal of lending interest is the current "availability of funds." Here in California, a number of lenders are now aggressively seeking mobile home paper, whereas they were previously out of the market due to either a bad experience through service company participation or because of "tight money."

But, lenders returning to market still recognize the reasons for past bad experiences, and are **placing more emphasis on the basics—good credit and purchaser equity.**

Also, many of the lenders, savings and loans and commercial banks are not only financing **new** mobile homes, but **are getting actively involved in financing of resales.**

Q—What has brought about this interest in financing of used units, particularly "in-park sales?"

A—In California, probably similar to a number of other states, the number of resales has produced a sizeable total dollar market. The increasing use of "on-site" appraisals (the only basis for true "market" valuation, in my opinion) has lessened the previous problems, relating mostly to the availability only of "guide-book" values not relating to "market value" of used mobile homes. **Where park spaces are limited, appreciation, rather than depreciation, of used mobile homes is taking place.** I feel this is a great plus for the industry as long as it doesn't get out of hand.

Q—What do you mean "get out of hand?"

A—A good thing is quickly recognized—soon everyone wants into the act. We now **see the real estate industry getting very active in mobile home resales;** mobile home brokers, with little or no investment, are increasing in numbers; mobile home retailers are looking to the resale market.

This can be an industry plus, as I said before, if maintained on reasonably sound credit basis (resale values staying strong can eliminate or lessen industry stigma of "unlike real estate, mobile home units are not a good buy because they depreciate rapidly in value"). Perhaps that is better said, "if sellers do not play games with lenders."

Q—What kind of effect have the

I see many changes taking place today in the manufactured housing industry—but, to facilitate these changes, the key element the industry requires is financing. Lenders must recognize their responsibility to assist manufactured housing. . .

Moss-Magnuson Warranty and the holder-in-due-course rulings had on lenders' attitudes and dealings with the industry?

A—To the best of my knowledge, they **have not had any substantial effect** on a significant number of lenders or caused a noticeable effect on present mobile home loan portfolios.

But, lenders do indicate a concern over their responsibility to police the industry and to the exact limits of liability the above rulings have placed on them.

Clarification should be made of the length of the lender's liability and the kind of claims that create lender liability.

It is very possible that the concern over the possibility of assuming full responsibility and liability for the goods and services they finance is a negative factor in any decision a new lender might have in considering retail financing. The benefits that the consumer receives under the warranty and holder-in-due-course rulings could be minimized if the end result is less availability of credit.

***Q**—How does California's mobile home escrow law work and what effect does it have on mobile home lending?*

A—The California escrow law went into effect on July 1, 1975. Basically, it requires that all cash or cash equivalent deposits given to a mobile home retailer be placed in escrow and retained until the unit was delivered to the site and passed a safety inspection to receive a "certificate of occupancy" approval. Presently there is legislation being proposed which will place additional responsibilities on the retailer and will approach the full escrow requirements similar to those of conventional real estate.

I feel that lenders have looked favorably on the escrow law and that it has had no ill effect on the quality mobile home retailer. **I expect other states to follow with comparable escrow requirements. I see that as beneficial to the consumer, to the lender and to the overall industry image.**

***Q**—What changes do you see in the current methods of financing mobile/manufactured homes?*

A—I see many changes taking place today in the manufactured housing industry—but, **to facilitate these changes, the key element the industry requires is financing. Lenders must recognize their responsibility to assist manufactured housing**—an important segment of the total housing industry—in solving the nation's housing needs.

Financing should be made available as long as it is profitable (relating to lender's total portfolio) **and a reasonable credit risk.**

***Q**—What can the mobile/manufactured housing industry do to create a greater lender interest? How can the retailer cultivate the interest of his local commercial banker?*

A—For some time, I have stressed the **necessity of a team relationship between manufacturer—dealer—lender, all working for the benefit of the consumer and to continuously upgrade the mobile home industry.**

The retailer can play a vital part in developing and maintaining lenders interest in the mobile/manufactured housing industry. He can keep the lender informed—not only about his sales center but regarding the industry as a whole, stressing the importance of "quality of product" and "quality of performance." **Remember, it is a two way street between dealer and lender, each with a responsibility to the other.**

***Q**—Then, do you say that resolving the financing problem is the key to industry growth?*

A—Yes, certainly . . . the key to growth is the availability of financing. **The industry has a very attractive financing package to sell—lenders must be made aware of it.**

The International Congress for Manufactured Housing Finance will present a real look-see at every phase of the industry. **Every manufacturer and retailer should make an effort to attend, bringing their banker along with them.**

***Q**—Is your outlook positive for the industry?*

A—Yes . . . again. The industry's future has all the plus signs—industry image has improved; product quality is excellent; financing funds are available. I feel recognition will be given to necessity of program changes to provide longer terms, simple interest financing, particularly when combining land with the mobile/modular unit. □

This interview with George Alexander, Loan assistant in the Loan Guaranty Service of the Veterans Administration, is the fifth in a series with members of the MHI Finance Committee. If you have questions you would like us to ask the experts, send them to: The Editor, Mobile Home MERCHANDISER, 2602 Gross Point Road, Evanston, Illinois 60201.

George Alexander

Q—How big a role does VA financing play in the mobile/manufactured housing industry, and how will this change in the future?

A—Over the last 30 years, the GI home loan program has helped make housing available for nine and one half million veterans. It is a well known and very successful program.

In the mobile home industry, we have constantly participated in 1% to 3% of the market, and are cautiously optimistic for the future. **The amount of effort the industry makes to use the program will be the major determinant in what the future of the program is for the mobile home industry.**

Q—What benefits can the mobile home retailer get from participating in the VA home loan program?

A—The VA program assists the retailer in becoming a full service operation. In addition, because of the low or no downpayment requirements of the program, retailers can many times obtain sales they would not otherwise realize.

Q—How can a mobile home retailer get involved in the program?

A—Participation in the program is relatively simple. The local VA offices would welcome the opportunity to work with any retailer.

Q—Many people in the mobile/manufactured housing industry have suggested that, although the VA program is good, it doesn't go far enough in terms of loan lengths or dollar amounts. Do you feel this criticism is valid?

A—There are many pros and cons here, depending upon the geographic location and the type lender involved. **The limits are statutory, and any changes must be made by the Congress. The limits are set by law, and the industry should make its interest known through its trade association.**

Actually, hearings are being held at the beginning of June to review the program, and loan limits is one of the major considerations.

What I'm saying is, if the industry feels the need for change, it has to make an effort to tell Congress about it.

Q—Another criticism of the VA program is that local officials don't seem to have information about mobile home programs. If retailers run into this difficulty, where should they go for informa-

tion?

A—We feel that our people have become very knowledgeable about the program. Most of them were mortgage oriented, but they've really made an effort to learn the mobile home business, and I think that in all but isolated cases where the mobile home volume is particularly small, our offices are very knowledgeable as far as the program is concerned.

In addition, we have a continuing program of education and training for our field people. However, any person who feels he has a problem should write: The Loan Guaranty Service, VA Central Office, 810 Vermont Avenue, N.W., Washington, D.C. 20420.

Q—One of the frequently repeated comments regarding government programs is 'the amount of red tape involved. Is it really all that bad in the VA program?

A—It can't be that bad or we couldn't have guaranteed 9½ million loans over the last 30 years.

Quite frankly, I think it's more of a state of mind. An individual has to say, "hey, I'm going to learn the program and get into it." If you look at a set of forms and set up a mental roadblock, or if you say, "why is this necessary," or "why can't you change this," then you're going to have problems working in the program.

It's a state of mind—an attitude. If a retailer goes into this program and says, "I'm going to learn how to do it," it's not that difficult.

I know nine times out of ten, the first time a person looks at the number of forms they just walk away from it. But we've got people who have been doing this every day for years, and they don't find this problem.

It's really not that complicated. **Before you get through with the whole thing, there are approximately 18 pieces of paper.** But, some are for the lender, some for the retailer, and others for the veteran. No one person has to deal with all of them. The lender is the one who packages the whole thing—he tells the veteran you have to sign this, and tells the retailer you furnish that. **It absolutely is just not that complicated.**

Also, we constantly ask for recommendations. Any suggestion that an individual can make that would help the program, or a form that could be deleted or added, we'll listen to.

You see, we have several mandates. The first is to assist the veteran in obtaining housing. But we still certainly have to protect the taxpayer and the government. **We feel we've done this with a minimum of red tape, but we're constantly trying, and if we can remove one inch of it, we're going to do it.**

Q—How will the eligibility of VA loans for pooling through the Government National Mortgage Association (GNMA—ginnie mae) mortgage backed security program affect VA loans for the mobile/manufactured housing industry?

A—The creations of a secondary money market is aimed primarily at making money available during credit shortages. Again, the effect of the GNMA program will be in direct relation to the enthusiasm shown by the industry in its use.

What it does is stabilize the exposure of the lender, because when he forms a pool and sells the participation shares he knows what the cost of his money is going to be over the life of the loan. He's not subject to the fluctuation of the prime rate.

Q—How does "pooling" actually work?

A—Well, the lender packages one half million dollars worth of loans. He carries it to GNMA, which puts them in a so called pool. GNMA sells participating shares to brokers. The participants—those who buy shares of the pool—are guaranteed, as of right now, an income of 8.5% as long as the loans are alive.

The originating lender retains the servicing of the loans. He gets paid, for VA its 3.2%, for handling the servicing—collection of the payments, pass-through of money to the investor, repossessions, this sort of thing.

What it does is generate new sources of money for the housing industry. Pension funds, trust funds, retirement funds, life insurance companies, and investors of all types can buy these things and have the full faith and credit of the U.S. government behind them. Plus, they've got a locked in income.

This type of thing has been going on in site-built housing for a lot of years, and it's a very, very attractive program to lenders that have this expertise.

Q—Does the industry seem to be taking advantage of it?

A—Well, there are quite a number of people becoming involved in it. There is a committee of the Mortgage Bankers Association that is involved in secondary market participation, and I think more of the commercial finance companies and other people of this sort will come into it.

Q—You have been working with home manufacturers and real estate developers on the manufactured housing subdivision concept. What progress is being made on that front?

A—To date, this has been an exercise in communication between the real estate oriented market and the manufacturers. However, we see constant progress and predict that this will be a large portion of the industry in the future.

Because VA is decentralized, we have absolutely no way of knowing how many builders/developers are involved. **The last time I counted, just from phone calls and that sort of thing, we knew that there were some 23 to 25 of these units in some stage of development across the country.**

It's a very attractive deal, because it ties the house to the land. We have continuing enthusiasm for this type of development, and inquiries and activities come in constantly from all over the country.

Q—What requirements does the industry have to meet in order to be eligible for this type of develop-

ment?

A—At present, the home must be manufactured in accordance with an FHA structural engineering bulletin. An installation and erection must meet the VA minimum property standards.

***Q**—Does the typical mobile home, built to HUD standards, fit into this concept?*

A—As far as the subdivisions and the 30-year type operations are concerned, the answer is no, the HUD standard home doesn't fit in. In order to qualify under the normal GI home loan program, the home has to be "born" under a structural engineering bulletin. This is a standard that involves architectural amenities and things like that. If the home is born a mobile home, it stays that way.

To be eligible under the VA mobile home program, the home has to be built to the HUD standard—or actually, the way our law now reads, it must meet ANSI A119.1.

***Q**—Is there any significance to the fact that VA has backed a bill that would eliminate the need for VA to inspect mobile home manufacturing facilities?*

A—The only significance is that **we feel the HUD standards are adequate, and elimination of our inspection will reduce the government's expense**—in accordance with the President's desire to accomplish economy in government. In other words, it will remove duplication of inspection.

***Q**—What is the VA's role in the appraisal of pre-owned or repossessed mobile homes?*

A—I'm very proud of this. As with the real estate approach, we feel the VA has been the leader in this area. **We feel very strongly that the only way to establish the true market value on a used home is by actual appraisal in the particular market in which the home is located and will be sold.**

***Q**—How does the VA appraisal system actually work?*

A—In every one of our 49 stations across the nation we have what is called a roster of fee appraisers. These are private individuals who are qualified in the area of mobile home appraising. In order to be placed on this roster, they have to have a certain amount of experience in this area of the mobile home industry.

When a lender comes to us and requests an appraisal, we turn the request over to the appraiser. He goes out, does his job, and brings the appraisal back to us. We have a staff appraiser, one of our own people, who checks each appraisal. Then, we issue a certificate of reasonable value—a CRV.

The CRV says we will guarantee a loan for "X" number of dollars on this particular home anytime within, I think, 30 days.

The service is not just for lenders. Any individual in the U.S. can go to a VA office and request an appraisal.

There is, however, a fee involved.

The cost of an appraisal depends on a number of factors—primarily how far the appraiser has to drive. For example, in sparsely settled areas where there's not enough business to warrant someone full time, the appraiser might have to drive 100 to 150 miles. Our office has said for anything beyond a given number of miles it will pay a flat fee plus mileage.

I would guess, however, that **these appraisals today are running from $20 to $50,** depending upon the area of the country.

But this is a great thing. We're finding that in some stations private lenders, banks, and savings and loan associations are coming to us for appraisals on used homes.

***Q**—Is there any thought towards basing the loan on appraised value of the* **new** *home rather than the invoice?*

A—Not at the present. **I think that someday that's what we'll wind up with,** just like site-built homes. But I think it's a long way down the pike. Competition regulates the invoice price pretty well right now.

***Q**—How is the VA program for mobile homes holding up under current program guidelines?*

A—The program is experiencing a slow but steady growth, as more of the industry becomes involved. **Defaults present no great problem at the current time.**

***Q**—What does the industry need to tell lenders about the opportunities available through the VA program?*

A—One suggestion would be that **state associations include participating lenders and local VA officials on their state and regional programs.** Some manufacturers already have retailer training programs, and offer other assistance to the retailer.

As I said before, the success of any available government program depends on the industry's acceptance and support.

But, actually, **the retailer's relationship with the lender is the key.** Local VA officials will cooperate in training and explanation of the program, furnishing forms, and any other assistance. But it really boils down to the retailer/lender relationship.

***Q**—What can the retailer and manufacturer do individually to use the VA program more effectively?*

A—First, they must become familiar with the program, understand how it works. They must understand that the program is designed to help the veteran obtain the home of his choice, and enthusiastically encourage his local lenders to participate in the program. **An effective advertising program noting that GI Loans are available and a sincere desire to assist the veteran in obtaining affordable housing is a must.**

***Q**—If you would make one major change in the industry, what would it be?*

A—If I could snap my fingers and remove the words "trailer," "mobile" and "manufactured" from the industry's vocabulary, I would do it in 10 seconds. That would leave us with the word "home," and that's exactly what we're producing. □

This interview with Jim Rixey, vice president of finance for Conchemco, Inc., is the sixth in a series with members of the MHI Finance Committee. If you have questions you would like to ask the experts, send them to: The Editor, Mobile Home MERCHANDISER, 2602 Gross Point Road, Evanston, Illinois 60201.

Q—How do current financing practices affect the resale value of mobile homes?

A—Very derogatorily. **About the only basis that any finance institution has at the moment to develop a value for a used home is the used value guide books,** and they are horribly out of date.

A forced, rapid depreciation of our product has adversely affected our whole industry—manufacturers, retailers, lenders, taxing agencies, and, most of all, the poor guy who buys our homes.

Q—Do mobile homes depreciate?

A—Depreciating an average home in three years to, say, 70% of its original value, is just not correct. **There exists no valid reason or argument to show that a manufactured home should depreciate in any different manner than a home built on real estate.** Inflation alone makes that argument senseless.

As a manufacturer, I would like to produce the same home I did three or five years ago for the same price. But I can't do it.

As long as that home is properly maintained, it should have a value of at least as great as it did when it was new.

Q—If what you say is true, why doesn't the market seem to agree?

A—Well, I can give you a lot of background for this answer. But what it boils down to, is that **ours is the only industry that I know of where the market is not allowed to establish the value of a product.**

Instead, published value guides, which no one can dispute because no one has any other way of doing it, are establishing a figure that sets the used value.

Retailers have told us that they could get thousands of dollars more for used homes. They have the buyers. But, they can't get anyone to finance the deal.

We went to the lenders with that information, and they told us, 'Sure, we realize that, and we'd be glad to finance more. We realize the books are undervalued. We already loan 125% of book, and we know that's low. We'll loan more when we can sell our repossessions for what you want us to finance used homes for.'

It got to be a standoff. The lenders will finance more when they can get more for their repos, and the retailers will give more for repos when they can get more financed. But nobody wants to be the first guy to do it. It ended up like a dog chasing its tail.

Q—Is there any way to break the circle?

A—I think the circle has finally been broken. It will probably take a number of years, but we're on our way.

Let me give you the background.

For a long time now, the Finance Committee has recognized that the methods that have been used to value manufactured homes is probably the most critical problem we have. We have discussed it many times.

But nobody had any solutions.

Manufacturers were aware of the problem, but I'll say they were rather complacent. They figured that the problem was going to have to be resolved by the finance institutions and the insurance people.

What really shook them up and brought the matter to a head was a joint letter to MHI from FHA and GHMA formally demanding that the industry tell them how to value used homes.

The government agencies pointed out that we, the industry, had been lobbying and pressuring for longer term financing and lower interest, along with government intervention in financing. We had sold them on the fact that our products were pretty well built.

You must remember that HUD was heavily into the construction codes at this time, so they knew what they were made of, and that the homes were supposed to last 20 to 25 years.

Then there was a big study FHA had done through, I think, MIT.

They spent a lot of money attempting to find out what a used mobile home was worth, in order to determine a life expectancy. They had to have a life expectancy in order to establish the two major factors of lending, the term and the rate.

Well, they couldn't locate any junkyard, any scrapped or unused homes. They did find a small percentage of homes that had been converted to vacation homes or construction offices, or that type of thing. But these were still being used—they still had a value.

Finally, they concluded that the life expectancy study would have to be delayed at least another ten to 15 years because they couldn't find any mobile homes that had

worn out.

But, when they look in the used value guides, they see that a five year old mobile home is worth, say, 50% of it's original cost.

Well, these two things don't add up.

So, the government wanted us, as experts, to tell them how to value used mobile homes.

And I tell you, the Finance Committee is made up of probably some of the wisest heads in the industry, and we were absolutely astounded. We couldn't answer their questions.

We formed a subcommittee, and it set as a goal to study all the existing used value guides that were available, compare each one and try to evaluate them.

Then, we would interview all the people we could think of, discuss the various methods, and we thought we could come back to the committee with a system for valuing used homes.

It sounded pretty simple in that initial stage, **but as we dug deeper, we found we had a very serious and complex problem.**

When we really got into this thing, and started comparing how these book publishers get their input, what types of formulas and methods they used, we were a little shocked.

First, we had reservations about the formulas used to compute the values. Then, we found that none of these publishers had any means to accumulate any actual used resale cost data. Two of them said there was just no way to find out.

These two publishers seemed to realize that there was a problem, and both had little charts in the back of their books to add on for accessories—the three-quarter bath, things like that.

Now these two had lengthy statements in the front of their books indicating that the guides were just that, and an individual appraisal of each home had to be made and the guide figures adjusted accordingly. One of them had quite an exhaustive worksheet to arrive at this cost.

However, when we started interviewing lenders, we got our second bellyshot.

We found out that they ignored these instructions entirely. Almost without exception lenders never went to look at the homes they were financing. For convenience purposes, they simply pulled the book out of their desk, looked at the figure, and that was the gospel.

So even the two publishers who gave explicit instructions on how their guides should be used were being almost totally ignored. Nobody wanted to get in a car and drive one hundred miles to look at a mobile home.

Another startling fact we found was that **almost without exception the lenders appreciated and were aleady aware that the book values were extremely low.** They were all lending anywhere from 110% to 135% of low book on retail contract. It was just a little rule they had.

Well, then we got into some heavy research on the books themselves, and we got still another shock. When we took dozens of random homes, just picking a year, make and size at random, and compared the various book values, we were astounded to discover that the values on the same home varied not just hundreds of dollars, but in many cases, thousands of dollars.

In other words, the more we dug, the worse the problem got. But we had one thing. Without exception, **all the experts ageed that there was one thing that needed to be done—a physical inspection.**

Q—Are there qualified people available to do appraisals?

A—Well, part of the problem is finding and training qualified appraisers. But, I don't think it takes a real expert. **I think anyone can learn if he has a good guide to value to start with—what the original cost of the home was to start with.**

In other words, was the home a Cadillac or was it a Pinto. **Then you have the two main criteria that none of the books are able to include—location and condition. As any real estate appraiser will tell you, those are the keys to everything.**

Of course, there is a third key, and that's market—is it saturated or is it house-hungry. But the prime considerations are location and condition.

And there is no way to find out those two things without going out to look at the home.

Q—Many times furniture and appliances are suggested as the major factors in the rapid depreciation. Is there any basis for this?

A—There is a tendency at the moment, and it has existed for about a year since we stirred up a lot of industry interest in this thing, for the current value guides to concentrate on minor items like furniture and appliances. But this distracts from the problem, because there are some features that build value and make our homes more desirable.

But, because of the complexity of those items, they aren't bookable.

The conversation you're finding is that too much of the value of a home is in furniture, and it shouldn't be financed for 20 years. That's ridiculous.

You hear figures saying that 40% of the cost of a home today is in soft goods.

The real figure is somewhere between 8% and 12%.

Q—You said that there was a solution to the problem. What is it?

A—Well, it dawned on me one day in an airplane that there was one place that ought to have the figures we need, **the insurance companies.** They have a value.

I don't care what a dealer or a customer reports to the state for sales tax, or what the figures on repossession resales are. But there is no logical reason for a buyer to shell out excessive fees to insure blue sky.

So, I called one of the major insurance companies and asked if they had the information, and they did.

It could be programmed by manufacturer, size and year, and there's your input.

You've got your new manufacturer cost to start with, and then if you can pull out this great volume of statistics on actual resale prices, then you've got your changes, and there's the key to the thing right there.

I think we've got it going, with the help of one of the value guide publishers. In three to five years, we're gonna have true facts. □

This interview with Bob Berner, vice president, Consumer Business of Citicorp, is the seventh in a series with members of the MHI Finance Committee. If you have questions you would like to ask the experts, send them to: The Editor, Mobile Home MERCHANDISER, 2602 Gross Point Road, Evanston, Illinois 60201.

***Q**—In your opinion, what is the current status of mobile home financing in the banking industry?*

A—The banking community is approaching mobile home financing with "cautious optimism." Many banks knowledgeable and experienced in mobile home financing continue to seek new business sources and serve their present retailer network with a full line of financial services.

Some banks who suffered from poor portfolio performance in '74 and '75 have not reentered the market. Others have returned, but are prudently cautious in establishing retailer relationships, rate of growth, and the geography in which to operate.

Bob Berner

***Q**—Are there any new trends in the banking industry concerning mobile home financing?*

A—Operationally, some banks have gone to simple interest calculations, and to monthly billing statements rather than coupon books. **But, generally, down payment requirements, advances and maximum maturities have been virtually the same for the past several years.**

***Q**—I believe that Citicorp, through a wholly owned susidiary, is involved in the financing of mobile homes including the sale of land. Is this true?*

A—Yes, our subsidiary, Advance Mortgage Corp. in Detroit, is involved because **we believe the combined sale of a manufactured home with the land has great potential for the future growth of the industry,** and is a viable way to provide the consumer with affordable housing.

***Q**—In this program, are you using conventional mobile homes or a home built to one of the other major building codes?*

A—It's a home built to one of the major building codes. The whole concept is to take a manufactured home that can be built by our industry and make it acceptable in the eyes of the consumer as conventional real estate.

In other words, **we want to put the very best home our industry can build into these developments,** and since most of the manufacturers are building to the major codes or better anyway, it really isn't a problem.

In addition, the developer has to comply with local codes and zoning regulations in the area.

***Q**—What are the advantages and/or disadvantages of this type of lending for the mobile home industry and for the finance industry?*

A—Well, I believe there are more advantages for both, at least based on our limited experience and our perception of the future.

First, we are fulfilling a consumer need for affordable housing, and our package is identified by the consumer as more conventional in nature and therefore meets with greater consumer acceptance.

Because of this change, we are attracting different buyers—they're somewhat older, more highly educated, and possess higher earning potential. These factors are all positive credit characteristics.

Also, because the land is a part of the sale, our experience indicates that the package is more apt to appreciate than depreciate in value at the time of resale. Property values that appreciate are a plus for the consumer, and have to increase confidence in the concept among the lending community—banks as well as sav-

ings and loans. This type of financing should provide all lenders involved with an increased profit opportunity.

***Q**—Last month, Jim Rixey said that there was no reason why mobile homes should depreciate. Do you agree?*

A—I don't know if there is a reason, but I think they do.

Part of the problem is that the homes are not resold in a desireable location. The home is out on the "back 40" of some unattractive farm or taken back to the retail sales location. There's no way a home is going to appreciate under those circumstances.

But if it's in an attractive setting, even in a rental park, then the new customer is apt to pay more for the home.

***Q**—Is the sale of the home with land a significant trend in our industry?*

A—It could well be a significant trend. I think we will always have a market for the conventional mobile home, **but the market potential, I believe, is in repositioning the manufactured home opposite a different consumer**—and capitalizing on the void left by the site-builders in the low cost housing market.

***Q**—Who is that consumer?*

A—Somebody that's earning in the $10,000 to $18,000 per year bracket who's looking for a home in the $18,000 to $30,000 range.

But I want to emphasize that we don't want to neglect our current buyer, the family in the low to moderate income bracket.

***Q**—In financing mobile homes with a more "traditional real estate" approach, are you working with individual retailers on a "one on one" basis or with subdivision developers on multi-home projects?*

A—Our experience and our preference has been limited to knowledgeable dealer/park operators or site-built housing developers in multi-home projects.

In most instances, the density has not exceeded four home sites to an acre, with paved streets and city sewers and water. The combined land/home package has sold for between $18,000 and $28,000 with 20% down payment for 18 years.

While we have no plans at this time to develop a program for individual or "one on one" sales, I know that it is being done by many banks and savings and loans on a local level.

***Q**—On another subject, there has been quite a bit of discussion about eliminating furniture from the mobile home finance package, and financing it as a separate transaction. How does the lending community feel about it?*

A—Well, I'll agree that it has been discussed and poses a problem. While I cannot speak for the "lending community," I do have an opinion.

I personally support an industry view that we provide the American consumer with the "freedom of choice" in their selection of affordable housing. **If the consumer's need is one that requires furniture and living essentials, then it should be available to him at the point of sale.**

I believe that multi-section homes should be marketed by the retailer to include only major appliances and carpeting and, while the entire furniture package should be displayed in the home and available for sale, the consumer should be encouraged to pay cash or the retailer should develop a financial arrangement to finance the furniture package separate from the home.

"Soft goods" financed as a part of the home sale is extremely expensive to the consumer, of little collateral value to the lender, and a tremendous expense to the retailer and insurer in the event of transfer or repossession.

***Q**—The mobile home industry is seeking the liberalization of finance terms—lower interest rates, longer terms, and lower downpayments. Do you think the lending community is going to comply with these requests?*

A—I foresee no radical change in the present terms for single-section homes. As land/home programs develop and expand, and lender confidence based on favorable trends and experience increases, conventional housing terms will become more available and truly stimulate the market.

What we need are some living success stories that demonstrate the profitability for all involved, the consumer, manufacturer, dealer/developer, and the lending community. □

This interview with John Maguire, vice president of finance and administration for MHI, is the eighth in a series with members of the MHI Finance Committee. If you have questions you would like to have answered in future interviews, send them to: The Editor, Mobile Home MERCHANDISER, 5225 Old Orchard Road, Suite 7, Skokie, Illinois 60076.

Editor's note: Mr. Maguire's remarks reflect his own opinions, and not those of any organization with which he is associated.

***Q**—In the first interview of this series, Dave Leichey said the outlook for mobile home financing was good. Has his optimism been proved true by events this year?*

A—Well, I think the cost of funds is fairly low now, so the yields should be relatively attractive for mobile home lending. I would say, on this basis, this his statement is true.

But the need for financing is still out there. There's got to be a lot of pent up demand for mobile home loans right now, and as far as industry sales are concerned, we probably aren't going to reach the 300,000 home mark that was predicted seven months ago. And it is the lenders who are really in the driver's seat as to whether or not they're going to make loans.

***Q**—Do you think that the lower home shipment level can be tied to unavailability or the unwillingness of lenders to finance mobile homes?*

A—I think lender attitude's definitely have some bearing on the fact that the industry may not reach the 300,000 shipment mark. The lenders are still exercising fairly conservative underwriting standards, and as a result of that, there is probably a high level of loan rejections.

***Q**—Is this necessarlity bad?*

A—No, I don't think it's necessarily bad. It indicates that the lenders may be acting more prudently now as the result of the problems of 1974-'75, and hopefully it means that we won't have a recurrence of those problems.

***Q**—But you seem to feel that the financiers could be a bit more liberal in their credit practices.*

A—Well, first let me say that the various lending institutions have made a great contribution to our industry. We couldn't have gotten where we are now without their help.

But now, when the industry asks for, say, longer term financing, what the lenders are generally saying is that, 'well, there's an equity problem in the present environment. The mobile home owner is frequently in a negative equity position, and when he runs into financial difficulty, he has no incentive to sell the home because he owes more on it than he could get.'

That's the attitude, but that's not true.

We feel that under the right circumstances, the homes will retain their value. But I raise that point only to emphasize that the lenders are using that as an excuse.

The real reason is maybe they're just not that interested in making mobile home loans right now.

As a comparison, look at what's happened in the automobile industry. Only a few years ago, the maximum automobile loan was three years. Now, there are four and five year automobile loans available. That's a 33% and a 66% increase in loan terms over a relatively short period time.

And, as far as I know, there have been no parallel improvements in the construction of automobiles that extend their physical lives. Lenders seem to be liberalizing their attitudes towards automobile loans simply to expand their portfolios. These loans happen to be one of the more lucrative activities of a bank's installment lending division right now.

It seems that the more the lenders want the business, the more they relax their underwriting standards. Right now, bankers in particular seem to be turned on to automobile loans and bank credit cards instead of mobile home lending.

***Q**—What can be done to shift the emphasis back to mobile homes?*

A—I'm not real sure. I think the attitudes tend to be cyclical, and I would guess that the automobile industry's current sales boom will level out eventually, whether it's six months or a year from now. At that point, perhaps, the bankers will once again be looking at mobile home lending to increase their profits.

Looking back to the early 1970s, mobile home installment lending was considered to be a very lucrative business for installment lenders to be involved in. The yields were higher in mobile home lending than in any other activity, so the mobile home business was the darling loan activity at that time.

Now, it happens to be automobiles and bank credit cards.

***Q**—Is the attitude the same among the savings and loan institutions?*

A—As far as the savings and loans are concerned, the attitude that was expressed last year in a meeting with some savings and loan executives in Louisville was that, generally, savings and loans would prefer to make one $80,000 conventional mortgage loan rather than mess around with four $20,000 mobile home loans. They're more comfortable with conventional mortgage financing, so that's the route they take.

Also, we're in a site-built housing boom right now. There's money available, and there are a lot of mortgage loans being made, so they're very preoccupied with making conventional mortgage loans.

When that kicks out, they will probably also be thinking more about becoming involved in mobile home lending.

***Q**—Our industry has always maintained that manufactured housing is the thing of the future, and the rising cost of site-built housing is going to push consumers out of that market and into manufactured housing. And yet, as you mentioned, we are in the midst of a site-built housing boom. Do you have any explanation for this?*

A—What we are seeing, I think, is that there are still a lot of people around who can afford to pay the high price of homes today—and there are enough of them to create a housing boom.

What the current boom doesn't address itself to is the people who can't afford these houses.

I think there is ample evidence that the number of people who can't afford site-built housing is growing. In fact, the U.S. Congress recently released a budget issue paper analysing the affordability of today's housing. Bascially, what they came up with, is the fact that the cost of housing between 1970 and '75 increased at a rate almost double the rate of increase of median family incomes.

The Savings & Loan News, put out by the U.S. League of Savings Associations, has addressed the cost issue on a number of occasions. One article, called "Don't Be Mislead By The Average Home Price," quoted some interesting statistics.

They reported that 2.8% of the new home market was in the under $20,000 price category. In the existing home market, 13.7% was in the under $20,000 price range.

So, I think it may not be valid to say that we are not in competition with existing and new housing. Some local builders are putting out no-frill homes that are probably far less appealing than today's modern multi-sectional mobile home. But, nonetheless, they are producing them.

In the existing home market especially, in some geographical areas, there is housing that is available at prices comparable to today's multi-sectional prices.

***Q**—getting back to the lenders, it has been said that financial institutions use the sale price of repossessed homes to establish the market value of pre-owned mobile homes. Is this true?*

A—I would say that it is probably true. **The lenders are developing their attitudes based on what happens with repossessed homes. Unfortunately, the way the lender handles the repossessed home leads to a resale price that's probably well below the potential market price.**

As soon as a home is yanked from its site and resold on a retailer's lot, you've got the automatic depreciation that comes with trying to market a used product along side a new one.

***Q**—Is there any way the industry can change lender attitudes toward resale?*

A—Well, historically, there were not a whole lot of choices left to a lender. The park owner would typically want that home removed so that he could fill the vacany with a new resident. **But if the homes were permitted to remain in the rental park and sold by the lender at that point, I think substantial benefit could accrue to the lender who may not have a loan office to contend with.**

In fact, under these circumstances, there may be a positive equity that would encourage the home owner to resell the home itself and not allow it to be repossessed.

So, it's not just a matter of changing the lenders' attitudes, but also those of the people in the industry. The repossessed home is not just a problem that the lender is confronted with. The industry needs to give whatever support it can to see that there are no losses.

***Q**—George Alexander, Joe Bradley and Jim Rixey, in earlier interviews, all came out strongly in favor of appraisals to establish the values of pre-owned mobile homes. What is being done to establish this form of valuation?*

A—The industry is very much in favor of this approach, but the only thing, specifically, that has been done by the industry is to encourage lenders to take this approach.

Some of the lenders are developing their own finance programs that include a site inspection of the home and a real estate-type appraisal.

Of course, the Veterans Administration has been doing this for quite some time, and we're getting a lot of help from George Alexander and the VA in encouraging lenders to adopt similar techniques to determine the value of existing mobile homes.

***Q**—Is MHI contemplating any program to increase the number of people qualified to perform mo-*

bile home appraisals?

A—No, MHI has not been contemplating it, and I don't know that it will in the future. However, the Society of Real Estate Appraisers has been attempting to develop expertise in the appraisal of mobile homes.

At the World Congress of Manufactured Housing Finance held in San Francisco last June, we had Gerald Taylor on the program. He's a licensed fee appraiser from California, and has gained quite a bit of expertise in appraising mobile homes.

Taylor developed a seminar for the SREA on mobile home appraising and has presented it in a number of cities in the last year.

I believe that the best route for the industry to take would be to encourage the existing fee appraisers to become involved. They have established credability in the field.

***Q**—Joe Bradley also noted that a number of real estate agents are becoming involved in the resale of mobile homes. Do you find this to be true?*

A—Yes, some realtors, in isolated cases, are handling the resale of mobile homes. In fact, in the area in which I live, the Northern Virginia Board of Realtors puts out a home buyers' guide, and from time to time, you can find listings of multi-sectional mobile homes.

I think this is good. The combination of real estate agents getting involved in the sale and fee appraisers becoming involved in appraisals will ultimately lead to valuation characteristics more like site-built housing. It should have an uplifting effect on our entire industry, I would think.

***Q**—In an earlier interview, Wayne Bengston said that the difference in the rate of charge for real estate loans and mobile home financing is justified. Do you agree?*

A—I don't agree with him, although he can probably support his position with historical data. But I don't agree by virtue of the fact that our homes are built better as a result of HUD standards and the fact that we're building homes to local building codes in some cases.

Our homes are built better and they look better. Consequently, they're more expensive.

In my opinion, those things mean that there is less risk, and the rate charged should be proportional to the risk taken. I don't think there's as much risk in a properly underwritten mobile home loan now as there was five to ten years ago, but I don't think the rates charged have changed substantially.

In 1960, the average price of a mobile home was $4,995, in '65 it was $5,600 and in '70 it was $6,110. But it 1976, the average price rose to $12,744—it more than doubled in six years.

The point that seems to be made is that very little has changed over the past 10, 15 or 20 years in mobile home financing. **When you consider the jump in price, financing is definitely lagging behind the advances the industry is making in both quality and price.**

We're running into a situation where something has to give. Either underwriting practices need to be relaxed, terms need to be stretched, or rates need to be lowered—something has to give. **Otherwise, we're going to reach the point where our traditional mobile home customer is going to be priced out of the mobile home market.**

***Q**—Some people have commented that government programs are not the answer to mobile/manufactured housing finance. But MHI has placed a great deal of emphasis on improving the adaptability of these programs for mobile homes. Do you think government programs will play a significant part in future manufactured housing finance?*

A—I think government programs will play a part, but it remains to be seen how big a part. The proposed changes in the FHA program, increasing the loan ceilings and terms, will result in more loans being written, I think, but I don't know how many.

But I think MHI's involvement in the government programs has the indirect effect of bringing national attention to manufactured housing.

In connection with the lobbying efforts that are being made to get these changes, a lot of Congresspeople and their staffs are becoming more aware of the industry and its products. This kind of attention and exposure should have the indirect effect of stimulating the interest of conventional lenders and the public.

***Q**—Will there be another World Congress on Manufactured Housing Finance?*

A—Yes, it is set for the Crown Center Hotel in Kansas City, Mo. in 1978. Tentative dates are June 21-23. □

This interview with Jerry Smith, vice president of Gibraltar Savings and Loan Association, is the ninth in a continuing series with members of the MHI Finance Committee. If you have questions you would like us to ask in future interviews, send them to: The Editor, Mobile Home MERCHANDISER, 5225 Old Orchard Road, Suite 7, Skokie, Illinois 60076.

***Q**—You've been involved in putting together an appraisal system for pre-owned mobile homes at Gibraltar. Why did you decide to do this?*

A—We entered the mobile home market in a large way in the beginning of 1974. One of the problems we faced at the outset was penetrating the market, coming as we were from a ground floor position. In fact, it was rather difficult to penetrate in a fashion we thought reasonable in terms of investing dollars safely.

Because of this difficulty, we turned to an area that we felt had been overlooked in California, and that was the used market.

We were willing to discard the guidebook approach to valuing used mobile homes. We also dropped the idea of age versus term. We went to the marketplace and said, 'well, if it's five years old or one year old, we will still go the same period of time in our financing because, basically, it's the same product.'

Previously, the reason the used mobile home market had failed to generate much activity was the reluctance on the part of commercial banks and finance companies to recognize the need for longer terms and larger dollar investment on an individual basis.

At first, we were really by ourselves. But, since that time, money has become more available to the lending community, and since we haven't been struck by disaster, so even commercial banks that abhorred the idea of going 12 and 15 years on a five and six year old home, are involved in doing so.

When we entered the market, it was necessary to use the appraisal forms used by service companies with which we did business. After some experience, we felt that the appraisal being used was directed more towards the terms of the sale than towards the actual product we were being offered on the contract.

So, we developed our own system.

***Q**—What changes did you make?*

A—One issue that was completely absent from all of the appraisal forms was an exact determination of what the mobile home sold for new, to the original buyer.

In California, the Department of Motor Vehicles assigns a two letter code to the registration and title which indicates the original selling price. So one major step of

ours was to incorporate the letter code designation onto the appraisal form. This gives the person appraising the home a jumping off point in determining the value of the dwelling.

Q—How is your system working?

A—It's working extremely well. In fact, **we have been able to dispose of repossessions at almost exactly what we considered to be their marketability at the time we purchased the contract on these mobile homes.**

What I mean is, if we had a two or three year old dwelling and we appraised it in its exact condition at $2,000 or $3,000 over the original sale price, when the mobile home was repossessed, it did in fact sell for that much more.

Q—How big a factor is the location of the home in your appraisal system?

A—We are a state chartered savings loan, and the regulations we operate under prohibit any consideration for the placement of the mobile home. We cannot, however, overlook circumstances whereby the demand for housing in the two major counties in southern California, Los Angeles and Orange, will have an effect on values.

For this reason, **we have taken into consideration the placement cost required to put a home into a particular park.** By that I mean we will give an attachment allowance, covering skirting, awnings, things like that, which we would not give a privately placed mobile home.

Q—Some park operators have objected to the concept of appraisals, saying that no value should be added to the home because of location. Do you agree with that?

A—No, I do not agree. **I agree with the concept of reasonable appreciation of mobile homes which are placed in positions that lead them into public demand for occupancy.** The reason for this is, if we do nothing more than assist the market for new park development in acceptable areas, it places more pressure on municipalities to come up with what is really needed in the mobile home industry—zoning to allow park development.

Without appreciation, this pressure will not be exerted, and there will be a further lack of investment in mobile home park construction.

Q—It has also been suggested that appraisals aren't valid unless land is part of the transaction. The reasoning is that homes don't appreciate, only land does. How do you feel about this?

A—Well, I think that we can say there is some appreciation.

From a lender's point of view, we're interested in what the mobile home would be worth in terms of value, whether it were or were not in a particular park, but necessarily whether it was occupied.

What I mean is, if it were necessary to move a mobile home from one park to another and then go to sale with it, then we can place a reasonable market value on the home, and that would in fact include some appreciation.

But, on the other hand, it were necessary to break a mobile home down, take it apart, and move it to either a vacant commercial lot or a lot where it was going to be sold by a retailer, then it would be difficult if not impossible to establish a "market value."

Our schedule permits reasonable market demand appreciation. For example, from February to July of 1977, there were 417 pre-owned dwellings reported by a multiple listing service on an exclusive listing basis in Orange County. These single- and multi-section homes went from 8′ × 40′ to 24′ × 68′ in size, and from 1956 to 1976 in year of manufacture.

The homes sold at retail prices ranging from $2,700 on a retailer's sales location, to $46,995 for an in-park sale. The latter also happened to be a 24′ × 64′ multi-section home.

The 417 sales brought a retail dollar value of $888,000. The average single-section home price was $12,875, and for multi-section homes it was $25,572.

Both of these figures exceeded the manufacturer's invoice in the years the homes were manufactured. So, there is in fact appreciation.

Some of it, however, like the $47,000 sale I mentioned, goes beyond our ability to invest.

Q—Who did finance the deal?

A—I don't know, although I have tried to find out how much was financed and who handled the loan. But this brings up another point.

Federally chartered savings and loan institutions, however, are regulated as to the number of years financed in relation to the age of the collateral. No matter what the appraisal of the home is, **savings and loans are still restricted in how long they can finance the home.**

For example, if an appraisal of a home were $30,000, a federally chartered institution could only finance it for 12 years. However, a state chartered savings and loan could give 15 year terms.

This is certainly not assisting us in meeting demand.

Q—It has been suggested that 20 years should be used as a life span of a mobile home, with the price of an older home being reduced according to a formula each year, bottoming out to about 20% of the original price. Do you think this would be an effective way to price pre-owned homes?

A—No, I do not. **I feel that the lifespan of a mobile home has yet to be determined. Personally, I think it is longer than 20 years.**

I believe that, unless the economic situation is depressed or stagnant, the price of mobile homes should fluctuate.

Besides, we have no objections now to financing the same amount on a 1970 home as on a comparable home built in 1975.

We consider the utility more in our marketability definition than we do the date of manufacture, so when we're determing value, we really aren't taking age into account.

Q—How does the appraisal meth-

od affect the mobile home market in general?

A—Well, prior to the time appraisals were used, the growth of the market was more restricted. Any losses suffered by the finance community were simply transferred over to the consumer in the form of, for example, higher down payments. The appraisal expands the marketplace.

Let me explain.

It is commonly known in southern California that a pre-owned mobile home can be disposed of in a reasonable time. People can put them up for sale and sell in a month or three weeks. Before, it used to take months.

But there's a demand for used homes, and it has created a demand for mobile homes in general—which has created a demand for parks.

This demonstrates that the people here are no longer afraid to invest in a mobile home. They have no fear they're going to lose their shirts in a year or two, if they decide to move because there is a demand for pre-owned homes.

Q—*How does this demand affect the number of repossessions?*

A—Well, I can only speak for California, but percentagewise, repossessions are generally nonexistant. When they do occur, the demand is such that the lenders can generally reap the balance of the loan or close to it.

Q—*In light of this, how do you feel about Wayne Bengston's belief that the difference in rate of charge between mobile home loans and real estate is justified?*

A—It depends upon the lending institution involved.

Savings and loans, by no means secretly, entered the mobile home lending field not to expand their portfolios necessarily, but to achieve investments in areas which would have better cash flow and a higher return on investment. Mobile homes seemed to be that area.

It is true, however, that mobile home lending is more and more becoming associated with real estate lending, and I suspect that this will continue over the years to come. **There is a possibility that the mobile home area of lending can move closer to real estate lending departments.**

But this is something that is not going to happen overnight, and in my mind, **savings and loans have no reason to reduce rates until they are able to examine portfolios that have comparable delinquency factors and comparable loss factors.**

This would be the obvious consideration on the part of any lender—if he's considering his return on investment versus the risk.

That isn't to demean mobile homes. It's just, as we all know, we went through some rather stringent times. Now, the executive officers and senior management in the major institutions are seeing some rather positive things, and change will undoubtedly come about.

Q—*Is there anything the industry could do to reduce the loss ratio and the number of delinquencies?*

A—In a way, yes. I'll give you two examples.

I'm not one to go in search of additional legislation, but I think major steps could be made to make more appropriate appraisals of mobile homes in California if two things were present.

First, **if the legal owner of a mobile home in California had the same rights as the registered owner**—the person who holds the rental agreement with the park—then we could not be arbitrarily taken out of the park by the park owners.

That is to say, currently if we have a repossession, we are at the beck and call of the park. If they can "sell the space" to a future renter, then it seems to them to be in their best interest to have the lender take a multisectional home out of their five star park that we've put faith in as far as marketability.

If we had the same rights as the registered owner, they could not do that.

Second, if it were required that **the legal owner and the registered owner both be on the application for the relocation of a mobile home,** it would mean that someone could not take a mobile home that we have given high marketability to in a five star park and move it to a lesser quality park or private property where it might subsequently become a repossession and lose value.

If we, the lender knew that a mobile home could not be moved from a park without our permission, and if we knew that if the home becomes a repossession we would have the same rental rights as a registered owner, then I would be the first one to go to the commissioner of savings and loans in California and appeal for changes.

Q—*Along these same lines, John Maguire said that financing for manufactured housing isn't keeping up with the increases in the price, and pointed out that something had to give or the traditional mobile home customer is going to be priced out of the market. Do you agree?*

A—No, I don't agree. The industry shouldn't turn to the lender as a measure to offset inflation and higher costs of production.

The thing that is going to change the lending policies of major financial institutions—extend terms, increase the amount financed—**is what the demand is for the product after it's been sold.**

If the demand continues to increase, as it has in the last year or so, then I'm sure the lending community is going to recognize the public's demand, and they're going to alter terms, rates, and they're going to do a great many things, and they're going to do a great many other things that will cause further acceptance of the mobile home as uniform housing.

But until this rising demand is evident for a significant period of time, I don't think you will find any major lender making arbitrary adjustments in terms, rates or dollars financed simply to meet manufacturing needs and the cost of production. □

This interview with Jack Kollker, vice president, manufactured housing division, of Percy Wilson Mortgage and Finance Corp., is the tenth in a continuing series with members of the MHI Finance Committee. If you have questions you would like us to ask in future interviews, send them to: The Editor, Mobile Home MERCHANDISER, 5225 Old Orchard Road, Suite 7, Skokie, Illinois 60076.

Q—*Percy Wilson Mortgage has been involved with various government programs for the finance of mobile homes. Would you run over them?*

A—There are three basic government programs that are used by the industry to some extent today. I suppose we should start with the Federal Housing Administration (FHA) program.

There were a lot of problems with the FHA program initially, and now it's just coming into it's own. An example of the difficulties would be that we needed to get all the parks approved by FHA.

After five and one half years, I would estimate that 75% of all the parks in the country are probably eligible, and that's because more and more lenders have jumped into the business. As a result, when they've had a placement, they have gone to FHA to get the park approved.

Despite the problems, the FHA program gives the consumer and the retailer more advantages than any other program in the country today. Let's compare some of the terms of the program.

First, the downpayment is 5% of the first $3,000 and 10% of everything over $3,000. **Generally, that comes down to less than 10% for the downpayment.** In what I consider to be the typical conventional finance contract, the downpayment is 15%. So obviously, the advantage here is that if a retailer has a buyer with only 10% down, he can utilize this program rather than let the buyer walk.

The amount that can be financed is another big factor. **Under FHA, the retailer can finance 113% of invoice plus $600 for set-up of multi-sectionals ($400 for single-section homes), and sales tax.**

With the typical conventional contract, the amount that can be financed is limited to about 100% of invoice, about $500 for set-up, plus sales tax.

So, a typical retailer can finance $1,000 to $1,500 more under this program than he can through conventional terms.

An important thing to remember is that you have to tie the downpayment and the amount to be financed together. For example, a conventional lender would say, "I'll finance invoice plus $500 plus sales tax. But I'll only require a 10% downpayment." What he is literally saying to the retailer is that his markup is limited to the $500 plus the 10% downpayment. When we tie the downpayment and the amount that can be financed under the FHA program together, we find **the retailer can have a markup around 125%,** adding the 10% down, the financing of 113%, and the $400 or $600.

Another important factor is the rate.

On the FHA program, the rate is a maximum 12% annual percentage rate (APR), and that has to be amortized on a simple interest basis, not what they call a rule of 78s basis—and there's a considerable difference.

The conventional rates today are between 12.78% and 14%, so from the standpoint of the consumer there is a definite advantage.

The maturity for FHA at this time is 15 years on multi-sectionals and 12 years for single-sectional homes. Again, if we compare this with a conventional

program, we find that most are capped at 12 years for a multi-sectional home.

So, we're talking about three additional years of financing under FHA which has the obvious effect of reducing the monthly payment—especially when you couple it with the lower 12% rate.

Another factor is the question of credit life insurance. **There can be no credit life financed under the FHA program.** Most conventional programs have credit life available. They can't require the buyer to take it, but they certainly would encourage him to take it.

Few people stop to recognize what this does, but if you take a $15,000 credit life policy on a decreasing term basis and you pay a premium of 60¢ per $100, which I'd say is a typical premium, and you wrote that over a period of 12 years, the premium would be $1,080. Now that's financed right in the contract.

The item I don't think is quickly recognized is that on top of the $1,080, the interest charge is $1,040. Together, that makes $2,120, and if you divide that by 144 months, you're talking about increasing the monthly payment by almost $15.

Now, I certainly don't disagree with the concept of the buyer having some kind of insurance to pay the home off if he dies. We make it available in our conventional program.

But the buyer can go out and get a term policy for much less money than it costs to finance credit life, and with FHA, this is the way the buyer must go.

Q—*Are there any disadvantages with the FHA program?*

A—Yes, there are some problems at this point which we have to get resolved.

One difficulty is the need to place the home either in an approved park or on land that is owned or being purchased by the buyer.

In a state like West Virginia, where much of the land is owned by the coal mines, even though many people have 100 year leases on the land, we can't place a home on the property since it isn't owned or being purchased by the home buyer.

Another disadvantage is the amount that can be financed on used homes at this point.

On one hand, FHA says the home must be sold at a retail price, and on the other hand they say you can only finance a percentage of the wholesale price. Sometimes, this results in a required downpayment greater than would be asked on a new home.

Somehow, and I believe it's under discussion at this time, we need to be allowed to finance 90% of the retail appraised value. That will be a plus when it happens.

Finally, I believe that FHA needs to be more aggressive in pursuing losses.

Even though we're in a consumer oriented society, I don't believe it's been the intent of the government to suggest to people that they don't have to pay their bills.

I believe that those people who feel that they can simply walk away from their homes must be pursued to pay any deficiency—and there normally is one. The home is seldom if ever sold for the principal balance.

Q—*Who absorbs the loss?*

A—There is a loss to FHA and the lender absorbs 10%.

Q—*Do you think the government should take the entire loss?*

A—No, I think it's a good feature that the lender is on the hook for part of the loss. It keeps the lender on his toes, making proper credit decisions and pursuing collections in a sound manner.

But in the end, even when you have good credit policies and sound collections, there are still going to be repossessions. **One tool that could be used to avoid these defaults would be a personal contact by FHA to discuss with that buyer the fact that he is liable for any loss that might be taken on the resale of the home.**

Q—*Would you say the delinquency rate on homes financed through FHA is greater than the rate for homes financed through other programs?*

A—I would say yes, it's somewhat higher, but not a great deal. There are three reasons. First, you're normally talking about a buyer that has put less money into the home initially, and, considerably more is being financed on the home than would be conventionally.

As a result, there isn't the equity buildup on the part of the buyer that you would have with a lower amount financed and a shorter term.

Finally, as I said before, it would help the program if they had some direct contact with a buyer in default.

Q—*Congress has approved increasing loan caps to $24,000 on multi-sectional homes and $16,000 on single-sectional homes. Also included is an extention of maturities for multi-sectionals to 23 years. How will these changes affect the FHA program?*

A—There is no question that the increased caps are going to be a big advantage for the programs. We need them with prices going up.

However, I disagree with the increased terms—unless that term is tied to a provision that land must be taken as additional security.

I think this provision has to be made because of the limited equity that the buyer is going to build up over a lengthy period of time. Let me show you what I mean.

Under the current program, after 15 years, the buyer is going to own the home clear. Over the course of a contract financing $20,000 his payments will have been in the neighborhood of $27 more than on a 23 year program.

But on the 23 year contract, at the end of 15 years, the balance due is in excess of $13,000—the buyer has accumulated less than $7,000 of equity from his original $20,000.

In addition, if the loan goes to maturity, the buyer still has over $20,000 in payments before the home is owned clear.

I know that the industry would just love to see 23 year financing, no downpayment, 150% of invoice on a home that's being placed in a park or on leased ground. But

that's unrealistic. It's questionable from the standpoint of the home going into default.

If lenders are expected to go out with extended maturities, low downpayments and large amounts financed in relation to manufacturer's invoice, then in my opinion we have to talk in terms of a piece of ground, owned by the home buyer, that the lender takes as additional security.

Unless the land is tied in as additional security, it is questionable from the standpoint of actual value of that home, that the buyer is developing any equity for a number of years. Any time you have a situation where the buyer does not have equity, chances are much better for default.

Here at Percy Wilson, we have been working on a program based on this concept. The requirements are that the home be a multi-sectional and that it be sited on ground owned by the buyer.

We'll assign a retail value to the combination of home and land, and finance 80% of that value. What this boils down to is that if the land has sufficient value, it's very possible that we're going to be able to finance that home, for 20 years, with little or no downpayment.

We're saying that we would take a mortgage or a deed of trust on the ground, and all but eliminate the downpayment, permitting us to finance almost the entire selling price of the home.

Q—*Getting back to the government programs, what about the Veterans Administration (VA)?*

A—The VA program undoubtedly has the finest terms available in the industry. However, it hasn't been used a great deal.

Q—*Why not, if the terms are good?*

A—Well, we just had a meeting in Washington, D.C. Lenders throughout the country and the VA people sat down, and I think it was fairly well determined that **the primary reason the VA program has not been used is because of the processing time and the paperwork.**

Now, in my opinion, VA is doing everything it can to strengthen the program and see that it's used. As a result, I think it will be simplified.

They are without a doubt a fantastic bunch of people to work with.

The program requires lower downpayments, permits a greater amount to be financed, with longer terms than any other program in the country.

Q—*Where does the Government National Mortgage Association (GNMA—ginnie mae) come in?*

A—FHA and VA are the two government programs that provide retail financing to the consumer and retailer. But, **having these very flexible programs available is of no advantage whatsoever unless funds are available.**

Let me give you our past experience to illustrate.

Three or four years ago, we saw private sources of funds literally dry up. During that same period of time, our company threw no restrictions on our programs. We went right through that period without any cutbacks, and were, in fact, still looking for business.

The reason we were able to do this was GNMA.

In April of 1972, GNMA extended its guarantee program to securities which were backed by FHA insured mobile home/manufactured housing contracts. Under the program, the lender prepares and issues securities equal to the amount of money he has invested in the contracts on those homes he has financed. This has to be done in minimum pools, as they are called, of $500,000.

These securities are then sold to investors. In effect, this replenishes the funds the lender has put out in retail installment contracts. The lender has his funds back to invest in the mobile home industry.

The reason this program is successful is that the securities we issue are backed by the U.S. government. If we should default on the payment of the principal and interest on these securities, their continuation is guaranteed by the government.

What this does is open up new sources of investment capital that have not been available to the mobile home industry in the past.

Q—*Does the VA pool work the same way?*

A—Yes. When the guarantee on VA contracts was raised to 50%, GNMA extended its program to VA contracts.

Q—*Will this help that program?*

A—Certainly! Quite frankly, we had not dealt in VA business until GNMA made their program available—simply because there were very few sources of funds.

To give you an example of what GNMA has meant to the FHA program, **I'd estimate that 75% of all the FHA insured contracts have gone through the GNMA program. I think we'll probably see the same thing develop with the VA program.**

In other words, there are now investment sources for these VA contracts.

Q—*Do you think the Farmers Home Administration (FmHA) will ever play a significant part in mobile home financing?*

A—I don't know a lot about that program, but it's my understanding that FmHA utilizes its own funds. It's not a guarantee or an insured program like FHA or VA. As a result, that program is going to be totally dependent upon how quickly FmHA wants to activate the program with their own staff.

Frankly, I haven't seen a great deal of activity in the program.

Q--*What about the 235 interest subsidy program?*

A—This program could probably become a real boon to the mobile home industry, but at this point, even though the program is authorized, we have received no regulations as to the procedures to be used.

It's a land and home program, the land and home financed together, and with longer terms, it could offer some real market advantages from the standpoint of monthly payments.

The way I understand it, the program would subsidize anything over a 7% interest rate. Given a 12% rate, this would be 5/12th, or about 45% which would be subsidized. □

This month's finance article, 11th in a continuing series, departs from our question and answer format. Bob Jaynes, director of the Installment Lending Division of the American Bankers Association (ABA), discusses the role of banks and bankers in the mobile/manufactured housing industry in, "Banking—a key to successful mobile home merchandising."

The bankers of America have a keen interest in the mobile home and manufactured housing industry. Many billions of dollars have been loaned by bankers over the last 35 years or so to manufacturers for the production of mobile homes, to retailers to finance inventory of homes, and to the ultimate purchasers and families who live in manufactured housing.

Although banking's support of the mobile home industry today represents a reduction during the last few years in both number and dollar amount of mobile homes financed for consumers, this trend has been compatible and similar to the industry's production and sales.

The mobile home industry itself is changing. It has made a substantial transition to larger homes to meet new consumers' demands, with new emphasis on first class housing and not mobility. The industry's price structure and market environment has thus seen change as well.

In 1976, bankers financed over $3,139,000,000 in new and used retail mobile home loans. Interestingly, this compares almost exactly with the industry's annual new mobile home sales of $3,136,000,000.

As of December 21, 1976, banking had outstanding consumer

Illustration I

DEALER FLOOR PLAN LOAN OUTSTANDINGS AS A PERCENTAGE OF INDIRECT LOAN OUTSTANDINGS

1974-1976

By Size of Deposits

Deposit Size Categories (In Millions)	Appliance Dealers			Mobile Home Dealers			Recreation Vehicle Dealers		
	1974	1975	1976	1974	1975	1976	1974	1975	1976
Under $10.0.	*	*	*	*	*	*	*	*	*
$ 10.0- 24.9	48.5%	40.8%	*	12.4%	8.0%	10.8%	*	*	*
25.0- 49.9	33.7	30.2	36.9%	12.2	9.4	18.5	78.2%	*	*
50.0- 99.9	23.6	31.5	30.3	13.5	8.0	6.8	60.4	51.6%	68.2%
100.0-499.9	11.6	10.0	12.6	7.5	6.8	6.1	43.0	45.8	58.5
500.0 and over.	7.6	9.5	5.7	7.0	4.1	4.8	29.3	23.5	28.0
All Sizes Combined . . .	10.4%	9.8%	9.9%	7.7%	5.9%	5.4%	34.3%	32.3%	34.4%

*Data not available due to insufficient response.

Table II

AVERAGE DOWN PAYMENT REQUIREMENTS FOR SECURED LOANS OTHER THAN AUTOMOBILES

1974-1976

By Type of Loan

Type of Loan	Down Payment Required		
	1974	1975	1976
Mobile Home, New-Direct	25%	20%	20%
Mobile Home, New-Indirect	10	10	10
Mobile Home, Used-Direct	25	25	25
Mobile Home, Used-Indirect	10	20	20
Appliance and Home Furnishing-Direct	10	10	10
Appliance and Home Furnishing-Indirect	10	10	10
Recreational Vehicle-Direct	25	25	25
Recreational Vehicle-Indirect	25	20	20

Table IV

BANKS PURCHASING MOBILE HOME PAPER FROM A DEALER SERVICE COMPANY

1974-1976

By Size of Deposits

Deposit Size Categories (In Millions)	Percentage of Banks Using A Dealer Service Company		
	1974	1975	1976
Under $10.0	0%	0%	*
$ 10.0- 24.9	10.3	3.4	*
25.0- 49.9	13.2	10.1	8.4%
50.0- 99.9	18.1	7.9	6.5
100.0-499.9	27.8	20.1	13.7
500.0 and over	18.7	20.3	11.5
All Sizes Combined	18.7%	12.3%	7.7%
Base	947	1117	716

*Data not available due to insufficient response.

mobile home loans totaling over $8,232,000,000. **This represents nearly 10% of the total installment loan portfolios in all commercial banks. This, obviously, is a major industry commitment.** In comparison, other major bank installment loan categories include automobiles at 41.4%; bank credit cards at 18.3%; and home improvement loans at 8.9%.

Comparatively, at the end of 1976, finance companies had outstanding mobile home loans totaling $3,277,000,000 and savings and loan associations had $2,360,000,000.

At the end of September, 1977, outstanding bank mobile home loans have grown to $8,691,000,000, indicating a $459,000,000 expansion during 1977. This growth indicates a very positive response to the marketplace and an extension of banking's support of manufactured housing.

In addition to financing retail sales, bankers provide "floorplan" or inventory financing for mobile home retailers. It is estimated that at year-end 1976, approximately $450,000,000 was involved in such loans. Illustration I, taken from the ABA 1976 Installment Credit Survey, provides a comparison of banks and their floorplan loan activities.

As is reported, nearly all size banks are involved in mobile home financing. Although a decrease in percentages is shown in the financing of retailer inventory during 1974 and 1976, some of this may be attributed to a transition in the marketplace and more custom ordering of homes by purchasers.

Bankers are also active in financing mobile home parks, manufacturers and related support industries. They also finance many mobile homes or manufactured homes under conventional, residential and farm real estate mortgage arrangements. These types of financing provided by banks are difficult to analyze in the statistics of banks, but I'm sure that the total dollars involved—along with that which is known in the retail financing programs—can easily show that bankers have a keen interest in the welfare and success of the manufactured housing industry of today.

Typical bank consumer financing arrangements for mobile homes as reported in the ABA 1976 Installment Credit Survey are shown on the following tables: Average down payments, Table II; Most common maximum maturity, Table III; and Mobile home service company relationships, Table IV.

Although both the FHA Title I Mobile Home Loan Program and that of the Veterans Administration are accessible to bankers, **they have shown little interest in these programs, and to date, their participation has been minimal.**

Although 25.7% of surveyed banks reported that they currently are using a simple interest payment plan for their consumer credit departments, we see no substantial trend developing as yet to finance mobile homes on such programs. Some are occurring, but the traditional form of installment lending seems, at present, to predominate in the marketplace.

It is difficult to determine the exact percentage of the 14,000 banks that finance mobile homes. **All could, but because of staff limitations, unfamiliarity with the mobile home industry, and the large amount of credit normally**

Table III

MOST COMMON MAXIMUM MATURITY FOR LOANS OTHER THAN AUTOMOBILE

1974-1976

By Type of Loan

Type of Loan	Most Common Maximum Maturity (In Number of Months)		
	1974	1975	1976
Personal	24 and 36	36	36
Modernization, Own Plan-Direct	60	60	60
Modernization, Own Plan-Indirect	60	60	60
Mobile Home, New-Direct	120	120	120
Mobile Home, New-Indirect	120	120	120
Mobile Home, Used-Direct	60	60	60
Mobile Home, Used-Indirect	84	84	84
Appliance and Home Furnishing-Direct	24 and 36	36	36
Appliance and Home Furnishing-Indirect	36	36	36
Recreational Vehicle-Direct	36	60	60
Recreational Vehicle-Indirect	60	60	60
Student-Bank's Own Plan Only	36 and 60	36	36

required, only the larger banks seem capable or skilled in financing the industry adequately to need.

Nevertheless, bankers from medium and large-size banks apparently are staying allied to the mobile home or manufactured housing industry. It has been good to bankers for more years than poor. The industry provides an opportunity for attractive, large-size loans with good customers. Many bankers also are aware that this industry provides the best current solution to modest and moderate priced housing for our nation. Home owners have always provided the attractive, stable customer base banks seek.

The banking industry has been impressed in recent years with the manufactured housing industry's successes in establishing a positive image of modern comfortable housing, and of the satisfaction of its customers. Additional emphasis, by the industry, is also needed in other areas because they are similarly important to bankers and the financial community. These are:

- **Bankers need to be kept informed by the industry,** manufacturers and retailers on developments within the industry.
- **Bankers should be encouraged to attend new model showings and new park openings.** They should be shown special innovations and construction techniques. They should also be made aware of construction codes and zoning issues.
- Manufacturers and local retailers **should work actively with community leaders and bankers to develop ample zoning authorities** for upgrading "trailer parks" and to improve and provide for the development of modern mobile home communities.
- **Retailers should also be good community members. Their places of business should be, on the average, upgraded,** maybe with manufacturer franchise requirements, so that the retailer locations are an asset and not a liability to a community's commercial section. Membership in community activities also is indicative of corporate responsibility and business stability.
- **Retailers and manufacturers should work hard to establish standards for industry invoicing procedures.** Since financing requirements on homes now are long-term, invoicing which identifies the portion of cost applicable to furniture and appliances should be separated. **Separate short-term or accelerated repayment programs are probably more appropriate in financing such additions in order to establish a more responsible relation between collateral valuation and loans.**
- Financial responsibility for retailers and manufacturers is also mounting to support customer service needs, warranties as now required under law, and various construction codes established by HUD and state laws. Stronger capitalization requirements will be needed to seek franchises, licensing and financing arrangements.

The manufactured housing industry should be pleased to find itself in the unique position of being the nation's largest "builder" of attractive, modern and comfortable residential homes at reasonable prices. Using modern mass production techniques, intelligent financing programs, and solid reputable marketing and distribution procedures, the industry should continue to grow and prosper.

Banking will be proud to assist. □